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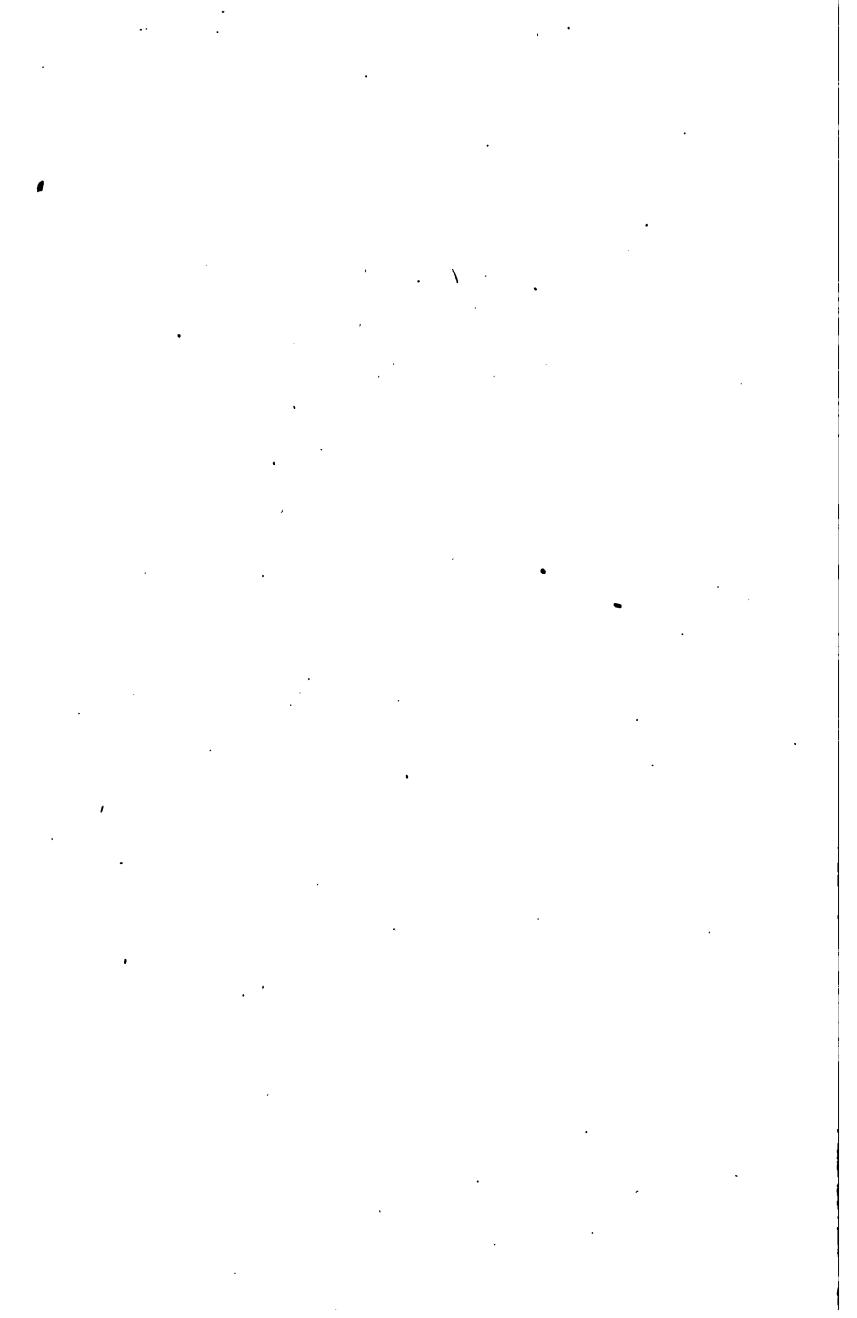
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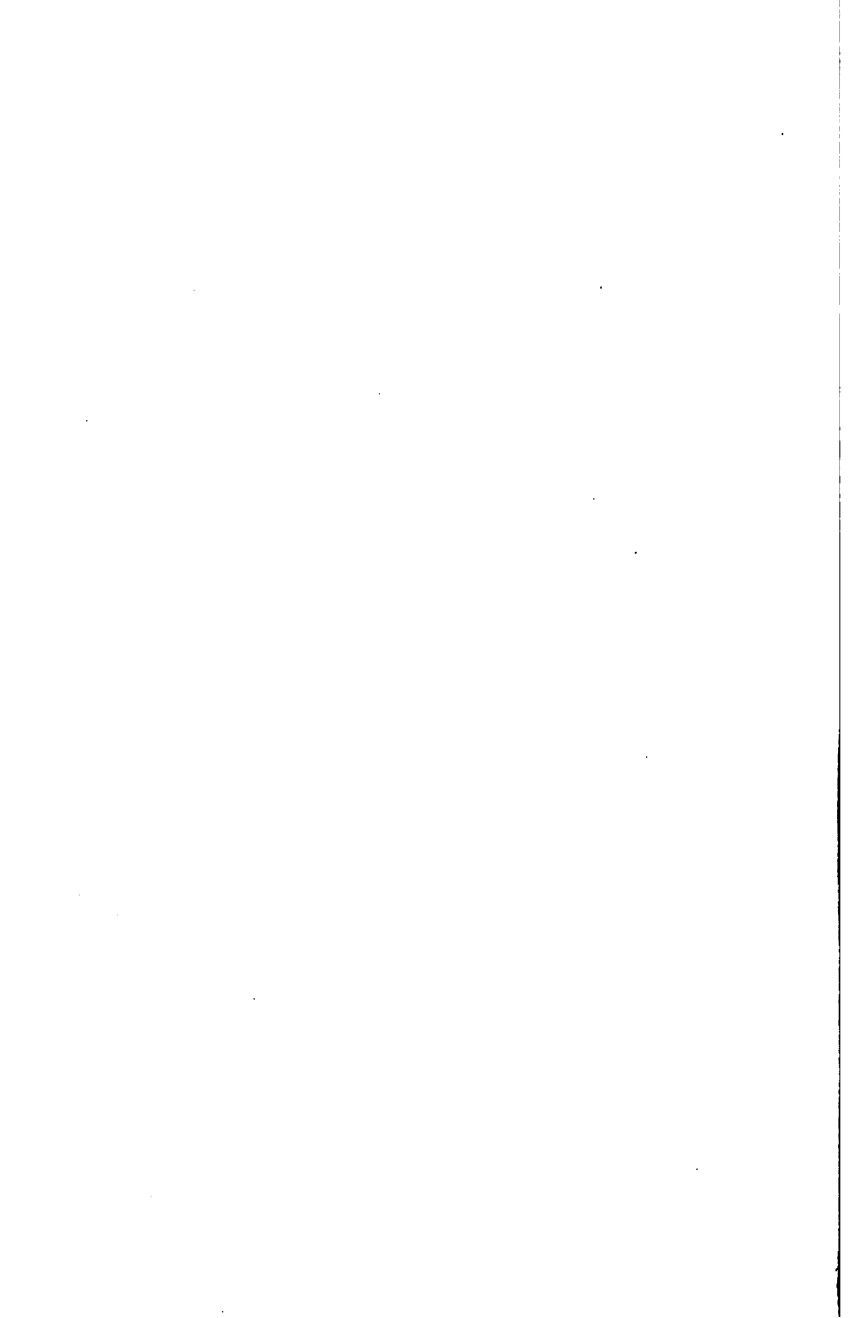


The Federal Income Tax Law

with

**Summary of Law and Regulations relating to
Individuals, Fiduciaries and Partnerships**

**Guaranty Trust Company
of New York**



The Federal Income Tax Law

Act of September 8, 1916, as amended,

Act of October 3, 1917

with

**Summary of Law and Regulations relating to
Individuals, Fiduciaries and Partnerships**

Guaranty Trust Company of New York

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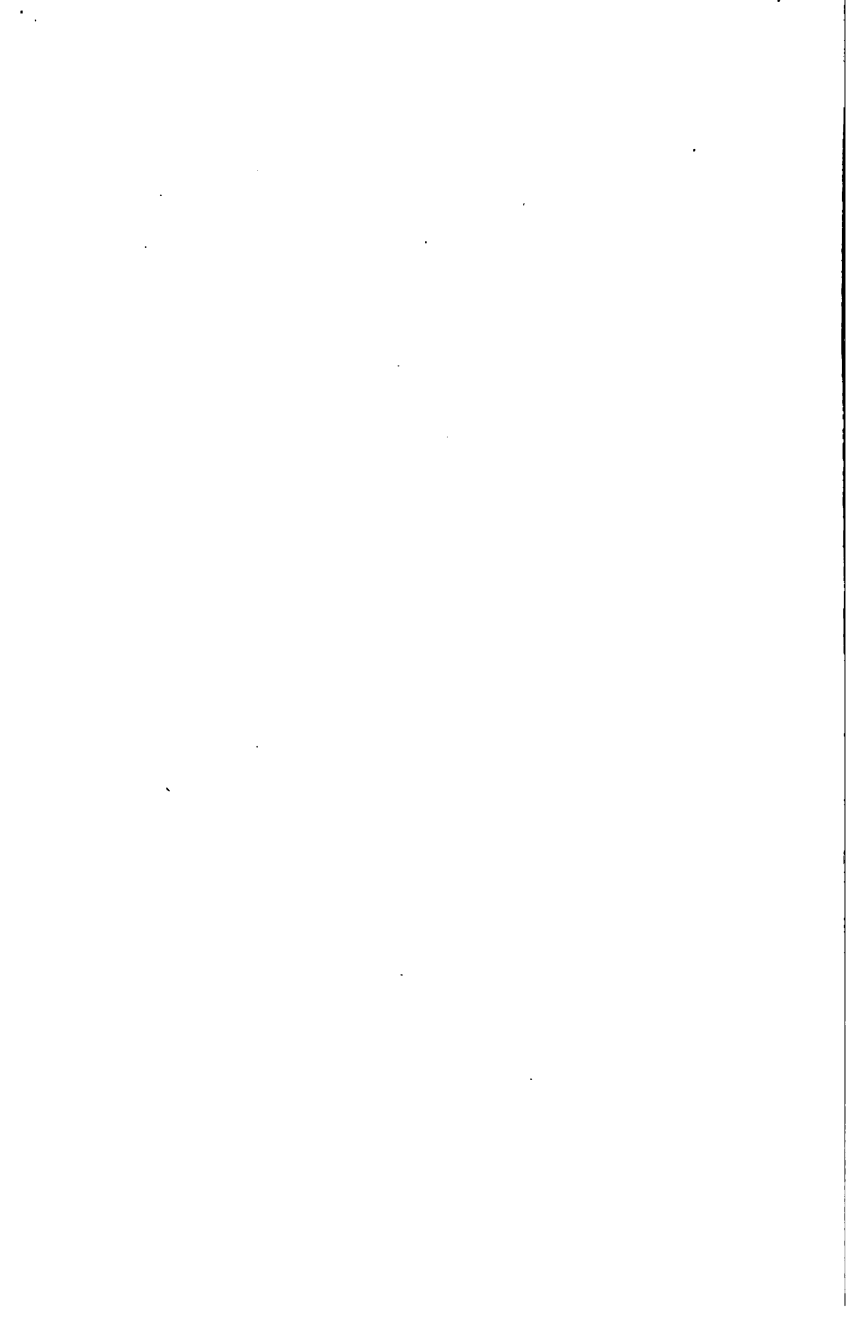
Guaranty Trust Company

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GUARANTY TRUST COMPANY OF NEW YORK

Table of Contents

Foreword	5
Summary of Law and Regulations	7
Text of Act of September 8, 1916, as amended	81
Text of Act of October 3, 1917	81
Index to Summary	135
Index to Acts	139



FOREWORD

WE have prepared the summary contained in this booklet from the 1918 revision of Income Tax Regulations No. 33, just issued by the Treasury Department. The summary includes those rulings which we deem most important to the individual taxpayer in the preparation of his income tax return and in the use of new ownership certificates and information returns.

This booklet does not deal with the War Excess Profits Tax Law.

We shall be glad to give information relating to the Federal income tax law and regulations and render such assistance as may be desired in the compilation of returns.

Guaranty Trust Company
of New York

1921. The first of these was the *Journal of the American Medical Association*, which published a special issue on the subject of the "New Diseases of the World" in 1921. This issue contained a list of 100 new diseases, including many of the diseases mentioned in the text.

The second of these was the *Journal of the Royal Society of Medicine*, which published a special issue on the subject of "The New Diseases of the World" in 1922. This issue contained a list of 100 new diseases, including many of the diseases mentioned in the text.

The third of these was the *Journal of the Royal Society of Medicine*, which published a special issue on the subject of "The New Diseases of the World" in 1923. This issue contained a list of 100 new diseases, including many of the diseases mentioned in the text.

The fourth of these was the *Journal of the Royal Society of Medicine*, which published a special issue on the subject of "The New Diseases of the World" in 1924. This issue contained a list of 100 new diseases, including many of the diseases mentioned in the text.

The fifth of these was the *Journal of the Royal Society of Medicine*, which published a special issue on the subject of "The New Diseases of the World" in 1925. This issue contained a list of 100 new diseases, including many of the diseases mentioned in the text.

Summary of
Law and Regulations
Relating to
Individuals

Persons Subject to Tax

The Federal Income Tax applies to citizens and residents of the United States and to non-resident aliens with respect to the United States. Non-resident aliens, however, are taxed only on income derived from sources within the United States.

Residence Defined

“Residence,” is held to be “that place where a man has his true, fixed and permanent home and principal establishment, and to which, whenever he is absent, he has the intention of returning; and indicates permanency of occupation as distinct from lodging or boarding, or temporary occupation.”

For the purposes of the income tax, it is held that where for business purposes or otherwise, an alien is permanently located in the United States; has there his principal business establishment and is there permanently occupied or employed, even though his domicile may be without the United States, he will be held to be "a resident of the United States," while aliens who are physically present in the United States, but only temporarily resident or employed therein (as for a season or other similarly definite term, and with the expectation or intention of leaving the United States upon the termination of employment or accomplishment of the purpose which necessitated presence in the United States), are within the class of "non-resident aliens."

Rate of Taxation

Normal Tax

The normal tax, which shall be paid upon the net income of citizens and residents of the United States, subject to certain exemptions and credits hereinafter described, shall be assessed and collected as follows:

Under the Act of September 8, 1916, the normal tax shall be at the rate of two per centum on net income in excess of allowable deductions and credits, and the personal exemption of \$3,000 for single persons, or \$4,000 for married persons

or heads of families (with additional \$200 for each dependent child).

Under the Act of October 3, 1917, an additional normal tax of two per centum shall be collected on such net income, except that the personal exemption shall be \$1,000 for single persons, or \$2,000 for married persons or heads of families (with additional \$200 for each dependent child).

By combining the normal taxes of two per centum, net income in excess of \$3,000 for single persons and \$4,000 for married persons or heads of families (with additional exemptions for children), is subject to a total normal tax of four per centum.

Illustration of Computation of Tax

The following example will show the steps in the computation of the normal tax and surtax:

"B," a married man, having two dependent children, has a net income of \$17,400, including dividends amounting to \$3,000; his excess profits tax amounts to \$1,000.

Statement of tax:

Net income		\$17,400
Less credit for excess profits tax		1,000
		<hr/>
Net income subject to surtax		\$16,400
Less Credits:		
Dividends	\$3,000	
Specific exemption Act of October 3, 1917	2,400	5,400
	<hr/>	<hr/>
Net income subject to 2% normal tax under Act of October 3, 1917		\$11,000
Less credit additional exemption under Act of September 8, 1916 (difference between \$2,400 and \$4,400)		2,000
		<hr/>
Net income subject to 2% normal tax under Act of September 8, 1916		\$9,000
Surtax on		
	\$16,400	
\$5,000 to \$7,500 @ 1%		\$25
7,500 " 10,000 @ 2%		50
10,000 " 12,500 @ 3%		75
12,500 " 15,000 @ 4%		100
15,000 " 16,400 @ 5%		70
		<hr/>
Total Surtax		\$320
Recapitulation:		
Tax 2% on \$11,000		\$220
" 2% " 9,000		180
Surtax on 16,400		320
		<hr/>
TOTAL INCOME TAX		\$720

Non-Resident Aliens

Non-resident aliens are subject to the normal tax on net income but only to the two per centum under the Act of September 8, 1916.

Surtax

Citizens and residents of the United States and non-resident aliens are also subject to an additional graduated tax, known as the surtax, which is assessed against net income in excess of \$5,000, including dividends of domestic corporations, joint-stock companies or associations and insurance companies.

The chart on the following page shows the rates of normal tax and surtax under the Act of September 8, 1916, and the Act of October 3, 1917, and the total tax on residents and citizens of the United States under both laws, effective for the calendar year 1917 and each calendar year thereafter.

Gross Income

Gross income required to be reported in the annual return of the taxpayer includes gains, profits and income derived from:

1. Salaries, wages or compensation for personal service of whatever kind and in whatever form paid;
2. Professions, vocations, businesses, trade, commerce, or sales, or dealings in property,

INCOME TAX CHART

Based on the War Income Tax Law, and the Income Tax Law, as amended October 3, 1917

(Chart shows the tax payable by a married person, but does not take cognizance of the \$200 exemption for each dependent child)

Net Income	Normal Tax		Surtax Percentages			Surtax			Total Tax	
	Old Law 2% on Excess of \$4,000†	New Law 2% Ad- dition- al on Excess of \$2,000‡	Total Normal Tax	Old Law	New Law Additional	Total	Amount subject to Tax	Installment of Surtax at Each Rate		Total Surtax**
\$3,000		\$20	\$20							\$20
4,000		40	40							40
5,000	\$20	60	80							80
7,500	70	110	180		1%	1%	\$5,000 to	\$25	\$25	205
10,000	120	160	280		2%	2%	7,500 "	50	75	355
12,500	170	210	380		3%	3%	10,000 "	75	150	530
15,000	220	260	480		4%	4%	12,500 "	100	250	730
20,000	320	360	680		5%	5%	15,000 "	250	500	1,180
40,000	720	760	1,480	1%	7%	8%	20,000 "	1,600	2,100	3,580
60,000	1,120	1,160	2,280	2%	10%	12%	20,000 "	40,000	2,400	6,780
80,000	1,520	1,560	3,080	3%	14%	17%	40,000 "	60,000	3,400	10,980
100,000	1,920	1,960	3,880	4%	18%	22%	60,000 "	80,000	4,400	16,180
150,000	2,920	2,960	5,880	5%	22%	27%	80,000 "	100,000	13,500	31,680
200,000	3,920	3,960	7,880	6%	25%	31%	100,000 "	150,000	15,500	49,180
250,000	4,920	4,960	9,880	7%	30%	37%	150,000 "	200,000	18,500	69,680
300,000	5,920	5,960	11,880	8%	34%	42%	200,000 "	250,000	21,000	92,680
500,000	9,920	9,960	19,880	9%	37%	46%	250,000 "	300,000	22,000	192,680
750,000	14,920	14,960	29,880	10%	40%	50%	300,000 "	500,000	91,000	327,680
1,000,000	19,920	19,960	39,880	10%	45%	55%	500,000 "	750,000	137,500	475,180
1,500,000	29,920	29,960	59,880	11%	50%	61%	750,000 "	1,000,000	306,000	800,180
2,000,000	39,920	39,960	79,880	12%	50%	62%	1,000,000 "	1,500,000	310,000	1,130,180
3,000,000	59,920	59,960	119,880	13%	50%	63%	1,500,000 "	2,000,000	630,000	1,800,180
							On excess of 2,000,000	310,000	1,680,300	1,900,180

† Single persons, \$3,000. ‡ Single persons, \$1,000. ** Total Surtax is the total of the installments for the income considered.

whether real or personal, growing out of the ownership or use of or interest in real or personal property;

3. Interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit;

4. Gains or profits and income derived from any source whatever, including the income from all property acquired by gift, bequest, devise or descent.

Dividends Defined

The term "dividends" means any distribution made by a corporation, joint-stock company, association, or insurance company, out of its earnings or profits accrued since March 1, 1913, and payable to its shareholders, whether in cash or in stock of the corporation, joint stock company, association, or insurance company.

Stock Dividends

A stock dividend shall be considered income, to the amount of surplus, undivided profits and earnings distributed. For example, if a corporation issues a stock dividend of one hundred shares, having a par value of \$100 each, and transfers to capital an amount of surplus and undivided profits equal to the value of the stock distributed, the par value of the stock received shall be returned as income, subject to the surtax.

The United States Supreme Court, in its opinion in the case of *Towne vs. Eisner*, handed down January 7, 1918, a case arising under the Act of October 3, 1913, held that stock dividends were not subject to tax. The Commissioner of Internal Revenue has ruled that this decision does not affect the taxable status of dividends under the Acts of September 8, 1916, and October 3, 1917, and therefore that stock dividends distributed in 1917 are subject to tax.

Scrip Certificates in Lieu of Dividends

Scrip certificates issued by a corporation to its stockholders in lieu of dividends are held to be equivalent to payment in cash, and are subject to tax as dividends to the amount of their face value.

Payment of Dividends in Securities of Other Corporations

Dividends paid in stock or securities of other corporations shall be accounted for as dividends at a value equal to the surplus distributed which has accrued subsequent to March 1, 1913.

Tax on Dividends

Dividends which were paid out of profits or surplus accumulated by the distributing corporation prior to the year for which return is made but not prior to March 1, 1913, should be reported

for the year in which the profits or surplus were accumulated.

The amount of dividends paid out of profits or surplus accumulated in 1916 is subject to surtax at the rate or rates imposed by the act of September 8, 1916, on a corresponding amount of income in excess of the net income for the year in which the return is made.

The sum of the amounts accumulated from March 1, 1913, to December 31, 1915, is subject to surtax at the rate or rates imposed by the act of October 3, 1913, on a corresponding amount of income in excess of the sum of the net income for the year in which the return is made and the amount accumulated in 1916.

Dividends Subject Only to Additional Tax

Dividends on stocks of domestic corporations are not subject to either of the two normal taxes of two per centum, but if such dividends together with other taxable income exceed \$5,000, the amount in excess of that sum is subject to the surtax.

Dividends of Corporations Fraudulently Availed of to Prevent Imposition of Additional Tax

For the purpose of the additional tax, the taxable income of any individual shall include the share to which he would be entitled of the

gains and profits, if divided or not, of all corporations, joint-stock companies or associations or insurance companies, however created or organized, formed or fraudulently availed of for the purpose of preventing the imposition of such tax through the medium of permitting such gains and profits to accumulate instead of being divided or distributed.

The fact that any such corporation, joint-stock company or association, or insurance company, is a mere holding company, or that the gains and profits are permitted to accumulate beyond the reasonable needs of the business, shall be *prima facie* evidence of a fraudulent purpose to escape such tax, but the fact that the gains and profits are permitted to accumulate and become surplus shall not be construed as evidence of a purpose to escape the said tax, unless the Secretary of the Treasury shall certify that in his opinion such accumulation is unreasonable for the purposes of the business.

Bonus

Special payments or bonuses made by an employer as extra compensation to his employees, may be deducted from gross income if it is clearly shown that such payments are made as compensation for services rendered; and the employee receiving the same will be required to include the amount of such compensation in gross income. If

such so-called compensation is a gratuity or voluntary payment for which no service is rendered, the amounts so paid may not be deducted by the employer.

Common Stock as Bonus

Common stock received as a bonus in consideration of the purchase of preferred stock is subject to tax only when sold, in which case the entire receipts from the sale are taxable.

Rights to Subscribe to Stock

Proceeds of sale of rights to subscribe to new stock in a corporation are returnable as income by the individual who holds the stock, and are subject to both the normal tax and surtax.

Interest

Interest on bank deposits, notes, mortgages, bonds, certificates of deposit and all other interest, not specifically exempt, must be included in the annual income return.

Bonds Purchased with Accrued Interest

The owner of bonds at the time the interest becomes due and payable should account in his return for only the interest which accrued after

the bonds were purchased by him. The former owner should account in his return for the interest which accrued during his ownership of the bonds.

Foreign Securities

Amounts received by citizens or residents of the United States for or in payment of interest upon bonds issued in foreign countries, and upon foreign mortgages or like obligations, and for any dividends upon stock or interest upon obligations of foreign corporations engaged in business in foreign countries, are subject to both the normal tax and surtax.

Compensation for Services of Trustee

Accumulated compensation taken by a trustee at the termination of the trust should be returned in full as income for the year in which paid and should not be prorated.

Damages

An amount received as the result of a suit or compromise for personal injuries is held to be returnable as income.

Insurance Commissions

Commissions on renewal premiums for insurance are income returnable for the year in which received.

Insurance Dividends

Dividends from paid-up policies are considered income to the recipient, and should be treated the same as dividends from net earnings of corporations.

Accident and Health Insurance

Money received by the insured from accident and health insurance must be returned as income.

Rents

The gross amount of rental received from real property should be returned as income. When permanent improvements are made by a lessee, under contract, the difference between the cost of the improvements and allowable depreciation during the term of the lease is considered rental and subject to tax.

Royalty

Royalty paid to a proprietor by those who are allowed to develop or use property or operate under some right belonging to him, is to be accounted for as income.

Income Accruing to Minor Child

Where a minor child has from time to time received from his father and other relatives gifts of money and other property, usually as birthday or Christmas presents, and such money

and property has been invested on behalf of the child by the father, although he has never been legally appointed guardian, the income derived from such money and property is taxable income and shall be included in the return of the father.

Likewise, the income received by a dependent child for services is deemed income of the parent and shall be reported by the parent for taxation. This rule does not apply to the separate estate of the child which should be taxed separately from the income of the parent.

Sale of Property on Installments

In cases wherein property is sold on the installment plan, title passing at the time of sale, the gain to be returned as income for the year in which the sale was made, will be the excess of the contract price over the fair market price or value as of March 1, 1913, if the property was acquired prior to that date, or of the contract price over the cost, if acquired subsequent to March 1, 1913. If the buyer forfeits his contract and fails to meet any of the payments contracted to be made, the selling corporation may deduct from its gross income as a loss, such proportion of the defaulted payments as was previously returned as gross income.

In the case of a contract to sell real estate or other property on the installment plan, title re-

maining in the vendor until the property is fully paid for, the income to be returned by the vendor will be that proportion of each installment payment which the gross profit to be realized when the property is paid for bears to the gross contract price. If for any reason the vendee defaults in his installment payments and the vendor repossesses the property, the entire amount received on installment payments, less the proportion of profits previously returned, will be income to the vendor and returned for the year in which the property is repossessed.

Sale of Real Estate Subdivisions

Where a tract of land is purchased for the purpose of dividing it into lots or parcels of ground to sell as such, the entire value as of March 1, 1913, or the cost, if acquired subsequent to that date, shall be equitably apportioned to the several lots or parcels to the end that any gain derived from the sale of any of such lots or parcels may be returned as income for the year in which the sale is made.

Profits from Sale of Property

Profits derived from the sale of securities or other property, real or personal, are taxable income. For the purpose of ascertaining the

gain derived from the sale or other disposition of property, real, personal, or mixed, acquired before March 1, 1913, the fair market price or value of such property as of March 1, 1913, shall be the basis for determining the amount of the gain derived.

Fair Market Value

The fair market price or value of stocks and bonds as of March 1, 1913, is held to be the fair market price or value as of the entire day of March 1, 1913, which, in the case of variation between opening and closing price for the day, would mean the average price for the day. This however, would be conditioned upon showing that the exchange quotation represented the fair market price or value of the stock, as it is the fair market price or value which is to control, however that fact may be ascertained.

Parcels of Stock of Same Issue Bought and Sold at Different Dates

In cases where various parcels of stock of the same issue are bought and sold at different dates, the shares sold shall be identified, whenever possible, by the number of the certificates covering them. When stock is sold and its identity cannot be determined, it should be charged against the stock first purchased and remaining unsold.

Appreciation of Capital Assets

Any appreciation in the value of capital assets due to appraisal or adjustment and taken up on the books of the individual is held not to be income subject to tax until such appreciation, as a result of a completed and closed transaction, has been converted into cash or its equivalent: that is, has been realized as an addition to and a part of the tangible assets of the individual. A book entry reflecting only an enhanced value of assets during the year is not such income as the income tax law contemplates shall be returned for the purposes of the tax.

Promissory Notes in Payment of Income

A promissory note in settlement of an account is considered a payment of the account and so much of the amount of such note as represents net income subject to tax shall be returned as income for the year in which the note is received.

Partnership Profits

Partnerships, as such, are subject to excess profits tax, but are not subject to income tax. The individual partners must ascertain their proportionate shares in the net income and report the same in their individual returns of income, and the net income embraced in their returns

shall be credited with their proportionate shares of excess profits tax imposed upon the partnership.

Farms

Definition of Farm

The term "Farm" as here used embraces the farm in the ordinary accepted sense, plantations, ranches, stock farms, poultry farms, dairy farms, fruit farms, truck farms, and all lands used for similar purposes; and all persons who cultivate, operate, or manage farms for gain or profit, either as owners or tenants, are designated as "Farmers."

Taxable Income and Deductions of Farmer

All gains, profits and income derived from the sale or exchange of farm products, whether produced on the farm, or purchased and resold by a farmer, shall be included in the return of income for the year in which the products were actually marketed and sold; and all allowable deductions, including the legitimate expenses incident to the production of that year, or future years, may be claimed in the return of income for the tax year in which the right to such deductions shall arise, although the products to which such expenses and deductions are incidental may not have been sold or exchanged for money, or a money equivalent, during the year for which the return is rendered.

Rents Received in Crop Shares

Rents received in crop shares shall likewise be returned as of the year in which the crop shares are reduced to money or a money equivalent, and allowable deductions shall be claimed in the return of income for the tax year to which they apply, although expenses and deductions may be incident to products which remain unsold at the end of the year for which the deductions are claimed.

Products Held for Market

When farm products are held for favorable market prices no deduction on account of shrinkage in weight or deterioration in storage shall be allowed.

Cost Price of Stock Deductible

Cost of stock purchased for resale is an allowable deduction under the item of expense, but money expended for stock for breeding purposes is regarded as capital invested, and the amounts so expended do not constitute allowable deductions, except as hereinafter stated.

Loss of Stock

Where stock has been purchased for any purpose and afterwards dies from disease or injury, or is killed by order of the authorities of a State or the United States, and the cost thereof has not

been claimed as an item of expense, the actual purchase price of such stock, less any depreciation which may have been previously claimed, may be deducted as a loss. Property destroyed by order of the authorities of a State, or of the United States, may, in a like manner, be claimed as a loss. If reimbursement, however, is made by a State, or the United States, in whole or in part, on account of stock killed or property destroyed, the amount received shall be reported as income for the year in which reimbursement is made.

Farm Machinery

The cost of farm machinery is not an allowable deduction as an item of expense, but the cost of ordinary tools may be included under this item.

Depreciation of Farm Property

A reasonable allowance may be claimed for depreciation on farm buildings (other than a dwelling occupied by the owner), farm machinery and other physical property, including stock purchased for breeding purposes, but no claim for depreciation on stock raised or purchased for resale will be allowed.

Accounts of Farmers

Farmers who keep books, according to some approved method of accounting, which clearly

shows the net income, may prepare their returns from such books.

Farms Operated Not for Profit

A person cultivating or operating a farm for recreation or pleasure, on a basis other than the recognized principles of commercial farming, the result of which is a continual loss from year to year, is not regarded as a farmer. In such cases, if the expenses incurred in connection with the farm are in excess of the receipts therefrom, the entire receipts from sale of products may be ignored in rendering a return of income; and the expenses incurred, being regarded as personal expenses, will not constitute allowable deductions in the return of income derived from other sources.

Estates and Trusts

Estates in Process of Settlement

Income received by estates of deceased persons during the period of administration or settlement of the estate shall be subject to the normal tax and surtax.

Accumulated Income

Income from estates or any kind of property held in trust, including such income accumulated in trust for the benefit of unborn or unascertained persons, or persons with contingent inter-

ests, and income held for future distribution under the terms of the will or trust, shall be subject to the normal tax and surtax. The tax in each instance, except when the income is returned for the purpose of the tax by the beneficiary, shall be assessed to the fiduciary.

Annual Income

In case income is to be distributed annually or regularly between existing heirs or legatees, or beneficiaries, the rate of tax and method of computing the same shall be based in each case upon the amount of the individual share to be distributed.

Non-Resident Aliens

Non-resident aliens are required to enter in their returns their total income received from sources within the United States, including interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise.

Exempt Income

The following classes of income are exempt from tax and shall not be returned as gross income:

Insurance

The proceeds of life insurance policies paid to individual beneficiaries upon the death of the insured; and the amount received by the insured, as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts either during the term or at the maturity of the term mentioned in the contract or upon the surrender of the contract are exempt from taxation. Dividends received on life insurance policies that have not matured are likewise not taxable income.

Property Acquired by Gift, Devise or Descent

The value of property acquired by gift, devise, or descent is exempt from taxation, but the income from such property shall be included as income subject to tax.

Bonus or Special Compensation

A bonus to an employee in the nature of a voluntary contribution or donation, and not as compensation for services rendered, is not income

subject to the tax. Such payments are likewise not proper deductions from the gross income of the employer.

Government and Municipal Bonds

Interest upon the obligations of a State or any political subdivision thereof, or upon the obligations of the United States (to the extent exempt under the Act authorizing the issue) or its territories or possessions, or securities issued under the provisions of the Federal Farm Loan Act of July 17, 1916, is exempt.

Four Per Centum Liberty Bonds and War Savings Certificates

Interest on all government obligations issued prior to September 1, 1917, are exempt from income tax. By the Act of September 24, 1917, the interest on 4% Liberty Loan Bonds and War Savings Certificates (in excess of \$5,000 principal), is subject to surtaxes and to excess profits taxes. If purchased and owned separately, a husband, wife and each minor child, may hold \$5,000 in such bonds and certificates, and the interest therefrom will be exempt from tax.

Political Subdivision Defined

Special assessment districts created under the laws of the several States for public purposes,

such as the improvement of streets and public highways, the provision for sewerage, gas and light, and the reclamation, drainage or irrigation of bodies of land within such special assessment districts when such districts are for public use, are political subdivisions of the State.

It is also held that the term political subdivision includes special assessment districts or divisions of a state created by the proper authority of the state acting within its constitutional powers and under its general laws, for the purpose of carrying out a portion of those functions of the State which by long usage and inherent necessities of government have always been regarded as public.

Levee and school districts, when lawfully created under the authority of the State and authorized by the laws of the State to levy a tax to meet the obligations of such districts, are also held to be political subdivisions of a state within the meaning of the income tax law.

Salaries of Officials

The compensation of all officers and employees of a state or any political subdivision thereof, except when such compensation is paid by the United States Government, is exempt.

Payments Under Contract with State

An individual who enters into a contract with a State, or any political subdivision thereof, for

the construction of a public highway, is held not to be an officer or employee of the State or political subdivision thereof. The amounts received by him, therefore, under the terms of the contract, are not exempt from tax under the provisions of the income tax law.

Deductions

Citizens or Residents of the United States

For the purpose of determining the net income in the case of a citizen or resident of the United States, there shall be allowed as deductions from gross income the following:

Expenses in Business or Trade

Necessary expenses actually paid in carrying on any business or trade, not including personal, living or family expenses, are allowable deductions.

Insurance Premiums

Premiums paid on life insurance by the insured do not constitute allowable deductions under the income tax law.

Premiums paid for insurance on property which is not occupied by the owner as a dwelling, but is rented or leased to secure an income, or used for business purposes are allowable deductions in computing net income.

Premium on Fidelity Bond

Where an employee is required to furnish bond and pay the premium on such bond, as a necessary incident of his employment, the premium on the bond will constitute an allowable deduction.

Expenses of Rented Property

A commission paid to a real estate agent for collecting rents and management of property is a legitimate business expense and an allowable deduction.

Deductions may be claimed on account of any expense incurred in the maintenance of the property, or its use, for rental purposes, including amounts paid for repairs, insurance, fuel, light and water, and janitor and elevator service, if any. In addition to the foregoing, an amount representing a reasonable allowance for the wear and tear of the property arising from its use for rental purposes may be claimed, but no claim for such depreciation may be made on account of any expense of restoring property or making

good the exhaustion thereof for which a deduction is claimed for repairs.

Lease

Where payment is made in advance for a lease running for a term of years, the amount paid divided by the number of years the lease is to run will give the amount to be deducted each year.

Investments of Capital

Expenditures such as payments for—

- (a) plans for a new building;
 - (b) copyrights and plates which remain in possession of person making payment;
 - (c) defending title to real estate;
 - (d) assessments made, under a mutual agreement of bondholders or stockholders of a corporation, to be used in the reorganization of a corporation; and
 - (e) assessments on its capital stock by a corporation:
- are held to be investments of capital and not allowable deductions for expenses.

Expenses of Administration of Estates

Expenses of administration of an estate, such as court costs, attorneys' fees and executors' commissions, are chargeable against the corpus

of the estate and are not allowable deductions in the return of a fiduciary.

It will be proper, however, for the fiduciary to enter all legitimate expenses incurred in managing the estate or trust. If the fiduciary holds and rents real estate and pays insurance, water rents, commissions for the collection of rents, or any other necessary expense in managing the estate or trust, it will be proper to enter same as an allowable deduction.

Salaries Paid to Employees in United States Service

In case an employer continues to pay an employee his salary, or part thereof, during his service in the United States Army or Navy, it is held that the same will be considered a necessary expense of the operation of the business of the employer and as such will be an allowable deduction.

Interest on Personal Indebtedness

All interest paid within the year on the personal indebtedness of the taxpayer, may be deducted except interest incurred in the purchase of securities the income from which is exempt from taxation.

Under this provision it is held that interest paid on indebtedness incurred in the purchase of

Liberty 4% Bonds, may be deducted in determining net income subject to surtaxes and excess profits taxes but not the normal income tax.

Taxes

Taxes paid within the year, imposed by authority of the United States (except income and excess profits taxes), or of its Territories or possessions, or any foreign country, or under the authority of any State, county, school district or municipality, or other taxing subdivision of any State, not including those assessed against local benefits, may be deducted.

Customs Duties

Customs duties paid during the year by an individual are allowable deductions as taxes or as part of the cost price of goods and merchandise if the individual is engaged in the importation of goods and merchandise.

In the case of business, excise, license, or privilege taxes, they may be deducted either as taxes or items of expense, but not under both heads.

Excess Profits Tax

Although excess profits taxes may not be deducted as a general deduction, the law provides that credit may be allowed for excess profits taxes

assessed for the taxable year. By this provision, income for 1917 is credited with the excess profits tax assessed for that year, for the purpose of determining net income subject to income tax.

Taxes Assessed Against Stockholders

Taxes assessed against the stockholders of a bank and paid by the bank in behalf of the stockholders, constitute an allowable deduction for the individual stockholder. A corresponding increase should, however, be made in the amount of dividends reported.

Local Benefits

Taxes paid on account of assessments levied by special districts, such as irrigation, reclamation, drainage, districts, etc., for sidewalks in cities, street extension, grading, paving, etc., are held to be "taxes assessed against local benefits." Such taxes are not allowable deductions in a return of annual net income.

Losses Incurred in Trade or from Casualty

Losses actually sustained during the year incurred in the taxpayer's business or trade, or arising from fires, storms, shipwrecks, or other casualty, and from theft, when such losses are not compensated for by insurance or otherwise, are proper deductions.

Losses from casualty are deductible although not connected with the taxpayer's trade or business. If claim is pending for insurance, the loss shall not be taken as a deduction until the claim is settled.

Basis of Determining Loss

The loss sustained from the sale or other disposition of property, real, personal, or mixed, if acquired before March 1, 1913, is the difference between the fair market price or value of such property as of March 1, 1913, and the price for which sold; or if acquired on or after March 1, 1913, the difference between the cost and selling price.

Persons Engaged in More Than One Business

A person may have more than one business and may deduct losses incurred in all of them, provided that in each business it can be clearly shown that he is actually a dealer, or trader, or manufacturer, or whatever the occupation may be.

Losses Must Be Actual

Loss to be deductible must be an absolute loss, not a speculative or fluctuating valuation of continuing investment, but must be an actual loss, actually sustained and ascertained during the tax year for which the deduction is sought to be made.

Dealers in Merchandise and Securities

Until this year an inventory of merchandise was required in all cases to be made at cost. By a recent ruling, however, such inventory must be taken at the market value or cost, whichever is lower, provided the taxpayer's books are kept on that basis and that such method is followed continuously. Dealers in securities may avail themselves of this privilege, but only those engaged in the business of buying and selling securities come within the regulation, and individual investors are allowed to take losses only when determined by an actual sale.

Losses Incurred, Not in Trade

Losses, actually sustained during the year in transactions entered into for profit but not connected with the taxpayer's business or trade, may be deducted to the extent of but not in excess of the profits arising from such transactions; that is, losses incurred in connection with an "avocation"; that which takes one from his regular calling; a minor occupation.

Bad Debts

Debts due to the taxpayer, actually ascertained to be worthless and charged off within the year, are deductible.

Debts Payable after March 1, 1913

Debts arising from unpaid wages, salaries, rents and items of similar taxable income due and payable on or after March 1, 1913, will not be allowed as deductions unless the income which they represent has been included in a return of gross income for the year in which the deduction as a bad debt is sought to be made, or in a previous year.

Debtor a Bankrupt

A debt due from a bankrupt is not to be deducted until all assets in the hands of the receiver have been distributed and the actual amount of the loss definitely ascertained.

Determined to be Worthless

Where all of the surrounding and attendant circumstances indicate that a debt is worthless and uncollectible and that legal proceedings to enforce payment would in all probability not result in the satisfaction of execution on the judgment, a showing of these facts will be sufficient to establish the worthlessness of the debt for purposes of deduction.

Depreciation

A reasonable allowance for the exhaustion and

wear and tear of property arising out of its use or employment in business or trade may be made.

Improvements and Betterments

No deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments made to increase the value of any property and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made.

Depreciation Distinguished from Loss

Depreciation, as an allowable deduction in ascertaining annual net income, is separately provided for, and is not to be confused with loss. The depreciation which may be taken as a deduction in a return of income is the value assigned to the deterioration of physical improvements or assets, such as are susceptible of having their value lessened through wear and tear or use.

Shrinkage in Value of Securities

The depreciation referred to in the income tax law does not relate to an evidence of a right or interest in property, hence any shrinkage in the value of bonds, stocks and like securities, due to fluctuations in their market value, is not deductible in a return of income as deprecia-

tion or loss. (See special ruling relating to dealers in securities, page 39.)

Costumes, Actors and Actresses

If costumes purchased by actors and actresses are used exclusively in the production of a play, and are not adapted for occasional personal use, and are not so used, a deduction may be claimed on account of such depreciation in their value as occurs during the year on account of wear and tear arising from their use in the productions of the play, or to their becoming obsolete at the close of the production.

Good-Will

Good-will does not represent a value attaching to physical property, and is held to be an intangible asset, whose value separate and apart from the business with which it is connected is not capable of determination. For the purpose of the income tax, it is capable of neither appreciation nor depreciation. Hence an amount claimed to represent its decline in value is not an allowable deduction from gross income in computing the tax liability of an individual or a corporation.

Rate of Depreciation of Buildings

For the purpose of computing a reasonable allowance for depreciation, the same rule applies

to buildings as to any other physical property which declines in value by reason of use, wear and tear. The rate will be determined upon the basis of the probable number of years constituting the life of the particular buildings for which depreciation is claimed and a fixed rate cannot be established.

Obsolescence

The depreciation deduction authorized does not contemplate any provision for obsolescence.

The Treasury Department holds that annual deductions for depreciation may be made to provide for loss due to wear and tear, the amount of such deductions to be determined upon the basis of the probable life of the property. If it shall occur that the property becomes obsolete or worthless before its estimated probable life shall have expired, a deduction representing the difference between the cost of the property and the amount previously charged off on account of depreciation may be deducted as a loss, this amount being a deduction due to the obsolescence of the property.

Depreciation of Estate Property

In the case of a trust estate where the terms of the will or trust, or the decree of a court of competent jurisdiction, provide for keeping the corpus of the estate intact and where physical

property, forming a part of the corpus of such estate, has suffered depreciation through its employment in business, a deduction will be permitted from gross income for the purpose of caring for this depreciation, where the deduction is held by the fiduciary for making good such depreciation. No depreciation deduction will otherwise be permitted by fiduciaries. Fiduciaries should set forth in connection with their returns the provisions of the will or trust or decree requiring such depreciation deduction where any exists, or that the amount deducted has been or will be preserved and applied as such.

Depletion, Oil and Gas Wells, and Mines

In the case of oil and gas wells a reasonable allowance for actual reduction in flow and production ascertained not by the flush flow but by the settled production or regular flow shall be permitted.

In the case of mines, a reasonable allowance for depletion thereof may be taken, not to exceed the market value in the mine of the product thereof which has been mined and sold during the year, for which the return and computation are made.

Such reasonable allowance shall be made under rules and regulations to be prescribed by the Secretary of the Treasury.

When the allowance authorized shall equal the capital originally invested, or in case of purchase made prior to March 1, 1913, the fair market value as of that date, no further allowance shall be made.

Contributions

Contributions or gifts made within the year to corporations or associations organized exclusively for religious, charitable, scientific or educational purposes, or for the prevention of cruelty to children or animals, may be allowed not in excess of fifteen per centum of the taxpayer's taxable net income, computed without the benefit of this deduction. The term taxable net income is construed to mean net income, less the credit for excess profits taxes assessed for the year.

In claiming this deduction, the name and address of the corporation or society and the date of the gift shall be stated.

Non-Resident Alien

For the purpose of determining the net income, in the case of a non-resident alien with respect to the United States, there shall be allowed as deductions, provided a complete and accurate

return of all income from sources within the United States is filed, the following:

Business Expenses

The necessary expenses actually paid in carrying on any business or trade conducted within the United States, not including personal, living, or family expenses.

Bad Debts

Debts arising in the course of business or trade conducted within the United States due the taxpayer, which are actually ascertained to be worthless and charged off within the year.

Depreciation

A reasonable allowance for the exhaustion, wear and tear of property within the United States arising out of its use or employment in the business or trade.

Depletion—Wells and Mines

In the case of oil and gas wells, a reasonable allowance for actual reduction in flow and production shall be ascertained not by the flush flow, but by the settled productions or regular flow (and in the case of mines a reasonable allowance for depletion thereof shall not exceed the market value in the mine of the product thereof which

has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in both cases under rules and regulations to be prescribed by the Secretary of the Treasury).

Interest on Personal Indebtedness

The proportion of all interest paid within the year by such person on his personal indebtedness, except interest incurred in the purchase of securities the income from which is exempt from taxation, which the gross amount of his income for the year, derived from sources within the United States bears to the gross amount of his income for the year derived from all sources. This deduction shall be allowed only if such person includes in his annual return all the information necessary for its calculation.

Losses in Trade or Business

Losses actually sustained during the year, incurred in business or trade conducted within the United States, and losses of property within the United States arising from fires, storms, shipwreck, or other casualty, and from theft, when such losses are not compensated for by insurance or otherwise. For the purpose of ascertaining the amount of such loss or losses sustained in trade, or transactions not in trade, from the same

or any kind of property acquired before March 1, 1913, the fair market price or value of such property as of March 1, 1913, shall be the basis for determining the amount of such loss or losses sustained.

Losses Not in Trade or Business

In transactions entered into for profit but not connected with business or trade, the losses actually sustained therein during the year to an amount not exceeding the profit arising therefrom in the United States.

Taxes Paid

Taxes paid within the year imposed by the authority of the United States (except income and excess profits taxes) or of its Territories, or possessions, or by the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, paid within the United States, not including those assessed against local benefits.

Income Solely from Property Invested

As the income arising and accruing to a non-resident alien from capital invested in stocks and bonds of domestic corporations is subject to the income tax, it is permissible for such non-resident alien, although his income from the United States

is derived solely from dividends and interest on domestic stocks and bonds, to deduct from the gross income so received any or all of the items scheduled in the law as proper deductions in the case of a non-resident alien, regardless of the source of the income, provided the amounts so deducted will not exceed the limit defined in the schedule of allowable deductions. In other words, the fact that the income arising or accruing in the United States to a non-resident alien is derived solely from dividends or interest on domestic stocks and bonds, will not operate to deprive such non-resident alien from deducting from the gross income from this source, such items as would be properly deductible were the income from any other source.

Credits

Normal Tax

Citizens and residents of the United States and non-resident aliens with respect to the United States shall be allowed the following credits in determining net income subject to the normal tax:

Dividends

The net income embraced in a personal return shall be credited with the amount received as

dividends upon the stock or from the net earnings of any corporation, joint-stock company or association, trustee, or insurance company, which is taxable upon its net income under the income tax law.

***Income Upon Which Tax Has
Been Paid at Source***

A like credit shall be allowed as to the amount of income, the normal tax upon which has been paid or withheld for payment at the source of the income under the withholding provisions of the law. In the case of citizens or residents of the United States, this credit applies only to interest on bonds containing "tax free" covenants upon which the tax has been paid by the debtor corporation.

Non-Resident Alien Allowance Conditional

The foregoing credits, as in the case of deductions, may be allowed a non-resident alien only in case he files, directly or through an agent, a full and accurate return of all income received from sources within the United States.

Excess Profits Tax

The net income of both citizens and non-resident aliens shall be credited with any war

excess profits taxes which may be assessed for the same calendar or fiscal year, such credit extending to both the normal tax and surtax.

Personal Exemption

Amount of Exemption

For the purpose of the assessment of the normal tax of two per centum under the Act of October 3, 1917, single persons are allowed a personal exemption of \$1,000. If the person subject to tax is the head of a family or married person, living with husband or wife, an exemption of \$2,000 may be claimed, but a husband and wife living together may claim only a total exemption of \$2,000 between them.

For the purpose of the assessment of the two per centum normal tax under the Act of September 8, 1916, a single person is allowed an exemption of \$3,000. A head of a family or married person living with husband or wife is entitled to an exemption of \$4,000, but a husband and wife living together are allowed only one exemption of \$4,000 between them.

Dependent Children

The head of a family is allowed an additional exemption of \$200 for each dependent child, if the child is under eighteen years of age, or if

incapable of self-support because mentally or physically defective, but only one parent may claim the benefit of the exemption. This exemption is applicable to the normal tax both under the Act of September 8, 1916, and under the Act of October 3, 1917.

Exemption Prorated

The specific exemption of \$2,000 for the assessment of the normal tax of two per centum under the Act of October 3, 1917, and \$4,000 for the assessment of the normal tax under the Act of September 8, 1916, may be claimed in the separate return of either husband or wife, the other claiming no exemption, or may be prorated between the two.

Guardians and Trustees

Guardians or trustees shall be allowed to claim this personal exemption in favor of each ward or *cestui que* trust, but in no event shall a ward or *cestui que* trust be allowed a greater personal exemption than as above stated.

Estates and Trusts

An exemption of \$1,000 under the Act of October 3, 1917, and of \$3,000 under the Act of September 8, 1916, may be claimed by estates of

deceased persons, in the process of settlement, and by trust or other estates, the income of which is not distributed annually or regularly.

Status of Person Claiming Exemption

The status of the person claiming the specific exemption shall be determined as of the time of claiming such exemption, if such claim be made within the year for which return is made; otherwise the status at the close of the year shall govern.

Head of Family Defined

For the purpose of the income tax law, the head of a family is held to be a person who actually supports and maintains one or more individuals who are closely connected with him by blood relationship, relationship by marriage, or by adoption, and whose right to exercise family control, and provide for these dependent individuals, is based upon some moral or legal obligation.

Non-Resident Alien

A non-resident alien is not entitled to a personal exemption.

Withholding at the Source

Citizens and Residents

Withholding of the normal tax at the source on income of individuals, who are residents or citizens of the United States, is abolished, except in the case of interest on bonds containing "tax free" covenants, in which case the withholding is at the rate of two per centum.

In practice, the tax is not actually withheld, for if an ownership certificate is filed on Form 1000—tax to be paid at the source—the company will pay the tax and the owner of the bond may take credit in his return for the amount so paid.

When coupons from bonds containing tax free covenants are presented for payment, if exemption is not claimed, ownership certificate Form 1000, Revised January, 1918, will be used. If exemption is claimed, Form 1001, Revised January, 1918, will be used.

Refund of Tax Withheld

Any amount of tax withheld during the year 1917 on account of tax imposed upon income of any individual, a citizen or resident of the United States, except in the case of interest on "tax free" covenant bonds, shall be returned to the individual by the withholding agent. The tax so returned shall be assessed on the return of the individual and paid directly by him.

Non-Resident Aliens

The normal tax of two per centum shall be withheld at the source on all fixed and determinable annual income, payable to non-resident alien individuals, except that derived from dividends on the stock of a domestic corporation, subject to the income tax, or from interest on obligations of the United States.

Corporations

Withholding in the case of a foreign corporation, not engaged in business or trade within the United States and not having any office or place of business therein, applies only to interest on bonds and similar obligations of domestic corporations and to dividends on the stock of domestic corporations.

The Commissioner of Internal Revenue has ruled that interest on bank deposits of foreign corporations not having offices or places of business in the United States is subject to withholding at the rate of six per centum.

Foreign corporations, having offices or places of business in the United States, should establish such fact by filing certificate Form 1001, Revised January, 1918, with the issuing corporation in order to be relieved from withholding of the tax.

Partnerships and Firms

Non-resident alien partnerships and firms are not subject to the provisions of withholding at the source. Ownership certificates Form 1001, Revised January, 1918, will be used with coupons from bonds of domestic corporations for claiming exemption from withholding.

Income Subject to Withholding

Income of non-resident aliens subject to withholding at the source may be divided into three classes, as follows:

Miscellaneous Income

Miscellaneous fixed and determinable annual income, including income derived from salaries, rents, wages, royalties, interest (other than interest on corporate bonds), annuities or emoluments, payable to non-resident alien individuals, is subject to withholding at the source of the two per centum normal tax. Such income, in order to be subject to withholding of the tax at the source, must be fixed and determinable.

Income which is not fixed or certain and not payable at stated periods, or is indefinite or irregular as to amount or time of accrual, is not subject to withholding at the source. Under this class of income, which is not fixed and deter-

minable and upon which the tax will not be withheld at the source, may be included income derived from the following professions and vocations: Farmers, merchants, lawyers, doctors, authors, inventors, an agent compensated on the commission basis and other professions and vocations whose income is irregular and indefinite. In connection with this class of income, the liability of representatives in the United States of non-resident aliens should be considered. (Page 74.)

Withholding agents will file a report on Form 1098 for each non-resident alien to whom fixed and determinable income is paid and such reports will be forwarded to the Collector of Internal Revenue with the withholding return, Form 1042.

Interest on Bonds and Similar Obligations of Domestic Corporations

This class of income includes income from bonds of corporations organized or existing under the laws of the United States. The term "similar obligations" is defined to be those obligations of corporations, which, though not bonds, mortgages or deeds of trust, are similar in form and purpose or are extended beyond the time of ordinary bankable, commercial paper. Interest payments on ordinary bankable commercial

paper of corporations payable to individuals are classed as miscellaneous income.

In presenting coupons for the payment of interest on corporate obligations, ownership certificate Form 1000, Revised January, 1918, shall be filed by both non-resident alien individuals and foreign corporations, not having an office or place of business in the United States. The withholding at the source in the case of individuals will be at the rate of two per centum and in the case of corporations at the rate of six per centum.

If the bonds or obligations from which coupons are detached contain covenants whereby the debtor corporation assumes the payment of the tax, the face value of the coupons will be paid to the holder, and when income is returned for taxation, credit for the tax paid by the debtor corporation may be taken on the personal return of the individual or corporation.

Dividends on Stock of Domestic Corporations

Dividends are subject to withholding of tax at source only when owned by non-resident alien corporations, not having an office or place of business in the United States. Withholding shall be at the rate of two per centum. In the return of a non-resident alien corporation, credit shall be taken for the amount of tax withheld and paid at the source.

If stock registered in the name of a non-resident alien corporation is actually owned by an individual, such fact may be established by filing with the debtor corporation Form 1087, Revised, and the tax will not be withheld at the source. If such showing is not made to the issuing corporation, the tax will be withheld, but upon disclosure of actual ownership, to the Commissioner of Internal Revenue on Form 1087 Revised, the amount withheld will be released. If the issuing corporation has knowledge that stock registered in the name of any individual is actually owned by a foreign corporation, subject to withholding of tax at the source, the tax on the dividends therefrom shall be withheld and paid by the issuing corporation.

Unless otherwise established, dividends are presumed to be income to the record holder of the stock and the issuing corporation will be governed in the withholding of the tax by the status of such record owner.

Procedure Where Foreign Corporations are Merely Record Owners of Stock

Where foreign corporations, associations or firms, having no office or place of business in the United States, are the record but not the actual owners of stocks of United States corporations and issue their bearer certificates with coupons attached against such stock and collect the divi-

dends for the account of holders of the certificates, they are merely agents of the actual owners. By appointing agents in the United States and by giving notice of the fact to the corporations issuing the dividends by the filing of duplicate notices with them, the dividends may be paid over to the agents or to the foreign corporation without any withholding of the tax. The corporation receiving the notice should file one copy with the Commissioner of Internal Revenue. Where dividends have been so paid without any withholding, the foreign corporations through their agents must make returns and pay the taxes on all dividends received except those shown to have been paid on the account of non-resident alien individuals. Certificate, Form 1087, Revised, signed by the holders of bearer certificates, should be attached to the returns filed to establish actual ownership.

Where tax has been withheld in such case and it appears that there would have been no withholding if the foreign corporation had had an agent in the United States, it may appoint one and he may file with the Commissioner of Internal Revenue a statement showing (1) the name and address of the foreign corporation which is the record owner of the stock and the fact that it is not the actual owner; (2) the name and address of the corporation in which the stock is held, the amount of dividends paid and the amount of tax withheld

by it; and (3) the names and addresses of the actual owners of the stock, the amount owned by each and the amount of dividend payable to each. The showing in clause (3) above, should be made by attaching to the statement, certificate Form, 1087, Revised. If it appears from the statement and showing that tax has been withheld in excess of the liability of the foreign corporation for such tax, instructions will be given to the withholding corporation by the Commissioner of Internal Revenue to release and pay over the excessive amount of tax withheld.

Bearer Certificates

Where bearer certificates (mentioned in a preceding paragraph) are issued to a foreign bank in share lots, the bank endorsing them in blank, in which form they are sold to investors, the investor claiming his dividend by presenting the certificate to the bank, the bank is held to have the status of a fiduciary.

When receiving dividends from domestic corporations and disbursing them to the actual owners, the banks are not required to withhold the tax; but the non-resident alien, who is the actual recipient, must make a return and pay the surtax, there being no normal tax on dividends.

Information at Source

Miscellaneous Income

All persons, corporations and partnerships, in whatever capacity acting, including lessees or mortgagors of real and personal property, trustees acting in any trust capacity, executors, administrators, receivers, conservators and employers making payment to another person, corporation or partnership of rent, interest, salaries, wages, premium, annuities, compensation, remuneration, emoluments or other fixed or determinable gains, profits and income of \$800 or more in any taxable year, are required to make a return on Form 1099 showing the amount of such payments and the names and addresses of the recipients.

Similar returns are required in case of payments made by the United States, by officers and employees having information as to such payments.

Separate returns for each recipient shall be made by informants, but if several payments of income of different character, such as rent, salary and interest, are made to the same person, by the informant, such payments may be included in the same return.

Information returns must be filed on or before March 1, 1918, with the Commissioner of Internal Revenue.

A letter of transmittal (Form 1096), under oath, showing the number of returns filed and the aggregate amount of payments represented by the returns shall be forwarded to the Commissioner of Internal Revenue, with the returns.

Fiduciaries

Fiduciaries making payment of income of \$800 or over, during the taxable year, to any beneficiary shall file an information return showing such payments on Form 1099.

Interest on Bonds and Foreign Dividends

Returns of information, regardless of the amount of payments, shall be made (1) by debtor corporations, or their duly appointed fiscal agents, of payments of interest on bonds or similar obligations of domestic corporations not containing a tax free covenant, in which case ownership certificate Form 1001 will be used; and (2) by duly licensed collecting agents of interest on bonds of foreign countries or of interest on bonds or dividends on stock of foreign corporations, in which case Form 1099 will be used, and return will be made by licensed collecting agent on Form 1096.

Brokers' Returns

Persons, corporations, or partnerships, engaged in business as brokers on any exchange, board

of trade, or other similar place of business, when required by the Commissioner of Internal Revenue, shall make returns showing the names and addresses of customers for whom they transact any business, with such details as to profits, losses, or other information as will enable the Commissioner of Internal Revenue to determine whether all income tax due on such profits or gains of such customers has been paid.

Dividends on Stock of Corporations

Corporations, subject to the Federal Income Tax, when required by the Commissioner of Internal Revenue, shall make return of its payments of dividends, whether made in cash, or its equivalent, or in stock, including the names and addresses of stockholders and the number of shares owned by each and the applicable amounts in which such dividends were earned.

Returns

Personal Returns

Citizens and Residents—When Required

On or before the first day of March in each year a true and accurate return of income received during the preceding calendar year, ending December 31, shall be made under oath by every citizen or resident of the United States subject to the tax, having a net income for the taxable year of \$1,000 or over, if single, or

\$2,000 or over if married, inclusive of income from dividends on stocks or from the net earnings of corporations, joint-stock companies, associations and insurance companies subject to income tax.

Required Though No Tax Due

This return shall be made regardless of the fact that the return may show no tax liability and that the net income may be less than the specific exemption to which the individual is entitled.

Dividends

In every return shall be included the income derived from dividends on the capital stock or from the net earnings of any corporation, joint-stock company or association, or insurance company.

Forms

For net incomes of less than \$3,000 Form 1040A will be used; for net incomes of \$3,000 or over Form 1040.

Where Filed

Personal returns shall be filed with the collector of internal revenue for the district in which the individual resides or has his principal place of business. In case the person resides in a foreign country, the return shall be filed with the col-

lector of the district in which his principal business is carried on in the United States, and if there is no place of business in the United States, then with the Collector of Internal Revenue at Baltimore, Maryland.

Returns Other Than Receipt Basis

An individual keeping accounts upon any basis other than that of actual receipts and disbursements, unless such other basis does not clearly reflect his income, may, subject to regulations made by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury, make his return upon the basis upon which his accounts are kept, in which case the tax shall be computed upon his income as so returned.

Return by Agent

Return may be made by an agent when by reason of illness, absence, or non-residence, the person liable for said return is unable to make and render the same, the agent assuming the responsibility of making the return and of incurring penalties, provided for erroneous, false, or fraudulent return.

Extension of Time by Commissioner

The Commissioner of Internal Revenue in meritorious cases may grant a reasonable extension of time for filing returns.

Extension of Time by Collector

If the return is not filed within the required time by reason of sickness or absence of the individual, an extension of time, not exceeding thirty days from March 1, within which to file such return, may be granted by the collector, provided a written application therefor is made by the individual within the period for which such extension is desired.

Extension of Time for Persons Residing Abroad

In the case of non-resident alien individuals or corporations or American citizens resident abroad, the time for filing income tax returns for 1916 and subsequent years is extended for such period as may be necessary, to and including ninety days after the proclamation of the President, announcing the close of the war with Germany. An affidavit stating the cause or causes of delay in filing must be attached to the return in order that the commissioner may determine whether failure to file return in time was due to a reasonable cause and not to wilful neglect. When the showing justifies the conclusion that failure to file returns in time is excusable, no penalty by way of addition to tax will be imposed.

Partnerships

A partnership shall not be required to file a return for income tax purposes unless required to do so by the Commissioner of Internal Revenue, but must do so for the excess profits tax.

Fiscal Year

A partnership has the privilege of fixing and making return on the basis of a fiscal year the same as provided for corporations. If the fiscal year of a partnership (other than the calendar year) ends in a calendar year for which there is a rate of tax different from the rate for the preceding calendar year, for the purpose of the income tax, each partner's share of partnership profits shall be divided in the proportion of the different calendar years composing said fiscal year and the rate of tax for the respective calendar years shall apply to that part of such profits as thus falls within said calendar years.

Any partnership designating the last day of any month as the close of its fiscal year, must give notice in writing, 30 days prior to March 1, to the collector of internal revenue of the district in which its principal place of business is located.

Husband and Wife

Joint and Separate Returns

Husband and wife may file separate returns or they may file one return of their joint income and either husband or wife may sign and verify same. Where husband and wife have separate incomes and either is subject to the surtax they should make separate returns of their respective incomes.

If the aggregate net income of both exceeds \$2,000, an annual return of their combined incomes must be made in the manner stated, although neither one separately has an income of \$2,000 per year.

Exemption in Separate Returns

The total specific exemption may be claimed in the separate return of either husband or wife, the other claiming no exemption; or may be prorated between the two.

Fiduciaries

When Required

Guardians, trustees, executors, administrators, receivers, conservators, and all persons, corporations, or associations, acting in any fiduciary capacity shall make and render a return, on Form 1041, Revised, of the income of the person, trust

or estate for whom or which they act, when the annual taxable income of any beneficiary of the estate, is in excess of \$1,000 if single, or \$2,000 if married.

Joint Fiduciaries

A return made by one of two or more joint fiduciaries and filed in the district where such fiduciary resides will be a sufficient compliance with the requirements of the law.

Time of Filing

Returns to be made by fiduciaries should be filed, as in the case of individuals, on or before the first day of March in each year.

Estates in Process of Settlement

In cases in which income is received during the period allowed by law for the settlement of an estate, the executor or administrator shall file a return on Form 1040A or Form 1040 and the net income so returned will be assessed and taxed to the estate the same as to an individual.

Period Previous to Death

A return of income received by a decedent during that portion of the calendar year preceding his or her death, shall be made by the personal representative of the decedent on Form 1040 or

1040A under the same conditions and subject to the same exemptions to which the decedent would have been entitled had he lived. His status at the time of his death shall control the amount of the personal exemption which may be claimed by his personal representative.

Estate, Beneficiary of Undistributed Income

The amount of income which is not to be distributed annually or regularly between existing heirs or legatees or beneficiaries and which is not returned for the purpose of the tax by a beneficiary, other than the estate or trust, is income to the estate or trust, and the normal tax and surtax thereon will be assessed to the executor, administrator, or trustee, as the case may be. As a beneficiary, the estate or trust will be entitled to an exemption of \$1,000 under the Act of Oct. 3, 1917, and \$3,000 under the Act of Sept. 8, 1916. The estate or trust will be listed as a beneficiary and where the net income exceeds \$1,000, a return on Form 1040 or Form 1040A will be required in addition to the return on Form 1041.

Estate or Trust Sole Beneficiary

When an estate or trust is the sole beneficiary of its income, and the amount thereof from all sources is \$1,000 or over, a return only on Form

1040 or Form 1040A, as the case may be, will be required, and the normal tax and surtax will be assessed and paid accordingly.

Guardian and Ward

A fiduciary acting in the capacity of guardian when there is but one ward, shall render his return on Form 1040A or Form 1040, according to the amount of net income, if the income of such ward is \$1,000 or over if single, or \$2,000 or over if married. Where there are two or more wards, any one of whom receives income in excess of \$1,000 if single, or \$2,000 if married, the guardian shall render a return on Form 1041, Revised, and a personal return on Form 1040A, or Form 1040, for each ward whose income is \$1,000 or over if single, or \$2,000 or over if married.

Beneficiary a Non-Resident Alien

A fiduciary acting in the capacity of trustee, executor, or administrator, when there is only one beneficiary and that beneficiary a non-resident alien, shall render a return on Form 1040, but when there are two or more beneficiaries he shall render a return on Form 1041, and a personal return on Form 1040 for each non-resident alien beneficiary.

Committee for Incompetent

For income tax purposes, the committee for an incompetent person is to be regarded as a fiduciary.

Beneficiaries

All amounts distributable to a beneficiary shall be included in the annual income return of the beneficiary.

Non-Resident Aliens

When Return Is Necessary

A return of income from sources within the United States by a non-resident alien shall be made, regardless of the amount of the income, except that when the total amount of tax due from a non-resident alien is deducted and paid at the source, a return need not be filed. In such case the non-resident alien, unless return is filed, will not receive the benefit of the deductions and credits permitted by law.

Failure to File Return

In case of failure to file return, the Collector of Internal Revenue shall collect the tax on such income, and all property belonging to such non-resident alien individual shall be liable to distraint for the tax.

Returns by Representatives in the United States

The responsible head, agent or representative of a non-resident alien individual or corporation, who is in charge of the property owned or business carried on within the United States of such non-resident alien, is required to make a full and complete return of the income received and to pay any and all normal tax and surtax assessed upon such income so received in behalf of such non-resident alien principal.

Returns by Nominee as Agent

Under the provisions of the law, a nominee who holds stock belonging to a non-resident alien is considered the representative of such non-resident alien and required to file a return of dividends received on such stock. Likewise, a real estate agent who collects rents for a non-resident alien; the custodian in the United States of American investments who is empowered to sell and does sell from time to time, securities so held; and any agents through whom a non-resident alien transacts business, are deemed representatives of the non-resident alien within the meaning of the income tax law and thereby required to make returns for their non-resident alien principals. Such agent can be required to report only income which actually comes through his or its hands and, therefore, no deduction permitted under the

law, will be allowed unless the agent is qualified to make and does make a return of the entire net income of the principal. If only a partial return is made by the agent, it is necessary that a complete return be made by the non-resident alien in order that he may be entitled to deductions allowed under the law.

If the principal is a non-resident alien individual, the return will be made on Form 1040; if a corporation on Form 1031.

*Non-Resident Alien Actual Owner
Not Record Owner of Stock*

In all cases where the actual owner of stock in a domestic corporation is a non-resident alien individual and the record owner is a citizen or resident alien, or a firm or corporation in the United States, and the showing of actual ownership is made by filing certificate Form 1087, Revised, the record owner will be held, for income tax purposes, to have the receipt, custody, control and disposal of the dividend income and will be required to make return for the actual owner on Form 1040 and pay the tax, found by such return to be due.

*Actual Owner of Stock
Non-Resident Alien Partnership*

If, upon disclosure by filing certificate Form 1087, Revised, it is shown that stock in the name of

a resident of the United States is actually owned by a non-resident alien partnership, no return will be made for such partnership by the record holder, as agent, unless the record holder shall be so instructed by the Commissioner of Internal Revenue.

Penalties

False Returns

The making of a wilfully false return of income shall be punished by a fine of not exceeding \$2,000 or imprisonment not exceeding one year, or both in the discretion of the court, and by the addition of a penalty of one hundred per centum of the amount of tax which a correct return shows to be due.

Delinquent Returns

Failure to file returns on time is punishable by a fine of not less than \$20 nor more than \$1,000 and an additional assessment of fifty per centum of the amount of tax due. If the return is voluntarily made without notice from the collector after the period for making return has expired and it is shown that the failure to file it was due to a reasonable cause and not to wilful neglect, the additional assessment will be waived.

Failure to Pay Tax

For failure to pay the tax on time, five per centum of the amount of tax due and one per centum interest for each month during which the tax remains unpaid is assessed as a penalty. This does not apply to the estates of insane, deceased or insolvent persons.

Failure to File Return with Intent to Evade Tax

Where the fact is established that the taxpayer failed to file a return out of a desire to evade the payment of the tax, a penalty is imposed of one hundred per centum of the amount of tax shown by a correct return to have been due.

Collection of Foreign Items Without a License

All persons, corporations, partnerships, or associations undertaking as a matter of business or for profit, the collection of foreign payments of interest or dividends by means of coupons, checks, or bills of exchange are required to obtain a license from the Commissioner of Internal Revenue. Whoever knowingly undertakes such collections without having obtained a license therefor, shall be deemed guilty of a misdemeanor and for each offense be fined not exceeding \$5,000 or imprisoned for not exceeding one year, or both, in the discretion of the Court.

Failure of Withholding Agent to Make Return and Pay Tax

Where a withholding agent, who is required to make a return and pay the tax withheld at the source, fraudulently and for the purpose of evading payment neglects so to do, he shall be guilty of a misdemeanor and shall be fined not exceeding \$2,000 or be imprisoned not exceeding one year, or both, in the discretion of the court.

Payment

Notice of Assessment

All persons are notified of the amount of tax for which they are liable on or before June 1, of each year, and payment must be made on or before June 15, of the same year.

By Whom Tax Is to Be Paid

The tax shall be paid by the owner of the income or the proper representative having the receipt, custody, control or disposal of the same.

How Payment Is Made

Payment may be made by cash or check, but if an uncertified check is given and not paid by the bank on which it is drawn, the person tendering it remains liable for the tax and is subject to penalties, the same as if no check had been tendered.

Payment in Advance

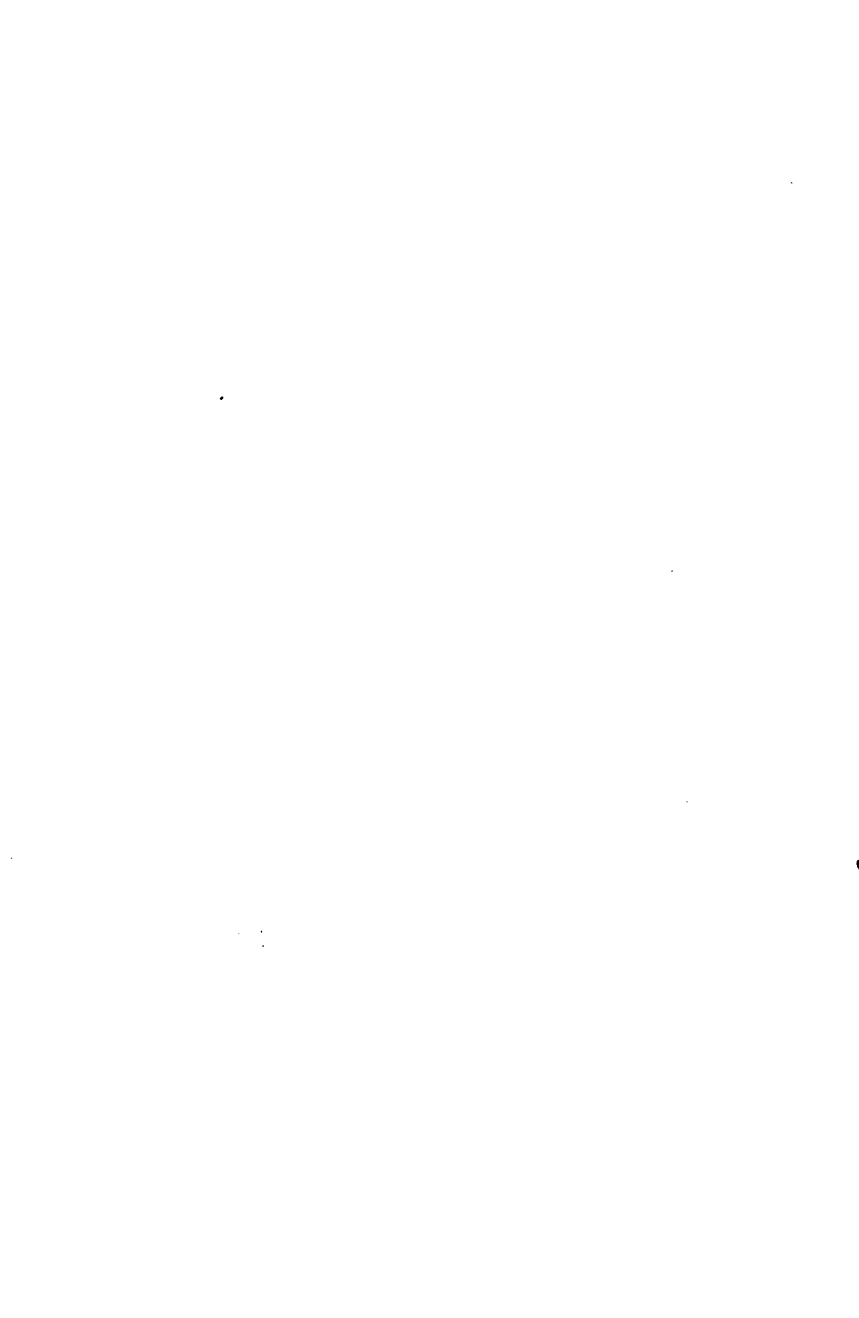
Payment in advance may be made either in installments or in full. If paid in installments, one-fourth of the estimated tax due must be paid before the expiration of thirty days after the close of the taxable year, one-fourth within two months after the close of the taxable year, one-fourth within four months after the close of the taxable year and the remainder of the tax on or before the time fixed for payment. Any amount paid in excess of tax liability will be refunded.

Interest on Advance Payment

Credit of interest not exceeding three per centum per annum, calculated upon the amount so paid from the date of payment to the date now fixed by law for such payment, may be allowed on payments made in advance. No credit, however, shall be allowed on payments in excess of taxes determined to be due, nor on payments made after the expiration of four and one-half months after the close of the taxable year.

Distrain in Case of Non-Resident Alien Individuals

In case of the failure of a non-resident alien individual to file return, the collector of internal revenue shall collect the tax due and all property in the United States belonging to the delinquent shall be liable to distraint.



The Federal Income Tax Law

Act of September 8, 1916

As amended October 3, 1917

(Amendments under the Act of October 3, 1917, are
printed in italics)

Title I.—Income Tax

Part I.—On Individuals

SEC. 1. (a) That there shall be levied, assessed, collected, and paid annually upon the entire net income received in the preceding calendar year from all sources by every individual, a citizen or resident of the United States, a tax of two per centum upon such income; and a like tax shall be levied, assessed, collected, and paid annually upon the entire net income received in the preceding calendar year from all sources within the United States by every individual, a nonresident alien, including interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise. **Normal Tax**

(b) In addition to the income tax imposed by subdivision (a) of this section (herein referred to as the normal tax) there shall be levied, assessed, collected, and paid upon the total net income of every individual, or, in the case of a nonresident alien, the total net income received from all sources within the United States, an additional income tax (herein referred to as the additional tax) of one per centum per annum upon the amount by which such total net income exceeds \$20,000 and does not exceed \$40,000, two per centum **Additional Tax on Incomes over \$20,000**

per annum upon the amount by which such total net income exceeds \$40,000 and does not exceed \$60,000, three per centum per annum upon the amount by which such total net income exceeds \$60,000 and does not exceed \$80,000, four per centum per annum upon the amount by which such total net income exceeds \$80,000 and does not exceed \$100,000, five per centum per annum upon the amount by which such total net income exceeds \$100,000 and does not exceed \$150,000, six per centum per annum upon the amount by which such total net income exceeds \$150,000 and does not exceed \$200,000, seven per centum per annum upon the amount by which such total net income exceeds \$200,000 and does not exceed \$250,000, eight per centum per annum upon the amount by which such total net income exceeds \$250,000 and does not exceed \$300,000, nine per centum per annum upon the amount by which such total net income exceeds \$300,000 and does not exceed \$500,000, ten per centum per annum upon the amount by which such total net income exceeds \$500,000 and does not exceed \$1,000,000, eleven per centum per annum upon the amount by which such total net income exceeds \$1,000,000 and does not exceed \$1,500,000, twelve per centum per annum upon the amount by which such total net income exceeds \$1,500,000 and does not exceed \$2,000,000, and thirteen per centum per annum upon the amount by which such total net income exceeds \$2,000,000.

**Dividends
Subject
to Surtax**

For the purpose of the additional tax there shall be included as income the income derived from dividends on the capital stock or from the net earnings of any corporation, joint-stock company or association, or insurance company, except that in the case of non-resident aliens such income derived from sources without the United States shall not be included.

All the provisions of this title relating to the normal

tax on individuals, so far as they are applicable and are not inconsistent with this subdivision and section three, shall apply to the imposition, levy, assessment, and collection of the additional tax imposed under this subdivision.

(c) The foregoing normal and additional tax rates shall apply to the entire net income, except as hereinafter provided, received by every taxable person in the calendar year nineteen hundred and sixteen and in each calendar year thereafter.

Income Defined

SEC. 2. (a) *That, subject only to such exemptions and deductions as are hereinafter allowed, the net income of a taxable person shall include gains, profits, and income, derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid, or from professions, vocations, businesses, trade, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in real or personal property, also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever.*

Net
Income

Source
Derived

(b) Income received by estates of deceased persons during the period of administration or settlement of the estate, shall be subject to the normal and additional tax and taxed to their estates, and also such income of estates or any kind of property held in trust, including such income accumulated in trust for the benefit of unborn or unascertained persons, or persons with contingent interests, and income held for future distribution under the terms of the will or trust shall be likewise taxed, the tax in each instance, except when the income is returned for the purpose of the tax by the beneficiary, to be assessed to the executor, adminis-

Income
Received
by Estates

trator, or trustee, as the case may be: *Provided*, That where the income is to be distributed annually or regularly between existing heirs or legatees, or beneficiaries the rate of tax and method of computing the same shall be based in each case upon the amount of the individual share to be distributed.

Fiduciaries Indemnified

Such trustees, executors, administrators, and other fiduciaries are hereby indemnified against the claims or demands of every beneficiary for all payments of taxes which they shall be required to make under the provisions of this title, and they shall have credit for the amount of such payments against the beneficiary or principal in any accounting which they make as such trustees or other fiduciaries.

Ascertainment of Gain on Property Acquired Prior to March 1, 1913

(c) For the purpose of ascertaining the gain derived from the sale or other disposition of property, real, personal, or mixed, acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such gain derived.

Additional Tax Includes Undistributed Profits

Undistributed Profits Subject to Additional Tax

SEC. 3. For the purpose of the additional tax, the taxable income of any individual shall include the share to which he would be entitled of the gains and profits, if divided or distributed, whether divided or distributed or not, of all corporations, joint-stock companies or associations, or insurance companies, however created or organized, formed or fraudulently availed of for the purpose of preventing the imposition of such tax through the medium of permitting such gains and profits to accumulate instead of being divided or distributed; and the fact that any such corporation, joint-stock company or association, or insurance company, is a mere holding company, or that the gains and

profits are permitted to accumulate beyond the reasonable needs of the business, shall be prima facie evidence of a fraudulent purpose to escape such tax; but the fact that the gains and profits are in any case permitted to accumulate and become surplus shall not be construed as evidence of a purpose to escape the said tax in such case unless the Secretary of the Treasury shall certify that in his opinion such accumulation is unreasonable for the purposes of the business. When requested by the Commissioner of Internal Revenue, or any district collector of internal revenue, such corporation, joint-stock company or association, or insurance company shall forward to him a correct statement of such gains and profits and the names and addresses of the individuals or shareholders who would be entitled to the same if divided or distributed.

Returns
of Names
and Hold-
ings of
Share-
holders

Income Exempt from Law

SEC. 4. *The following income shall be exempt from the provisions of this title:*

Income
Exempt

The proceeds of life insurance policies paid to individual beneficiaries upon the death of the insured; the amount received by the insured, as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or upon surrender of the contract; the value of property acquired by gift, bequest, devise, or descent (but the income from such property shall be included as income); interest upon the obligations of a State or any political subdivision thereof or upon the obligations of the United States (but, in the case of obligations of the United States issued after September first, nineteen hundred and seventeen, only if and to the extent provided in the Act authorizing the issue thereof) or its possessions or securities issued

Life
Insurance
Policies

Gifts

Interest
on Gov-
ernment
Bonds

Salaries of
Governmental
Officers

under the provisions of the Federal Farm Loan Act of July seventeenth, nineteen hundred and sixteen; the compensation of the present President of the United States during the term for which he has been elected and the judges of the supreme and inferior courts of the United States now in office, and the compensation of all officers and employees of a State, or any political subdivision thereof, except when such compensation is paid by the United States Government.

Deductions Allowed

General
Deductions

SEC. 5. That in computing net income in the case of a citizen or resident of the United States—

(a) For the purpose of the tax there shall be allowed as deductions—

Expenses

First. The necessary expenses actually paid in carrying on any business or trade, not including personal, living, or family expenses;

Interest

Second. *All interest paid within the year on his indebtedness except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this title;*

Taxes

Third. *Taxes paid within the year imposed by the authority of the United States (except income and excess profits taxes) or of its Territories, or possessions, or any foreign country, or by the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, not including those assessed against local benefits;*

Losses
in Trade,
and from
Casualty

Fourth. Losses actually sustained during the year, incurred in his business or trade, or arising from fires, storms, shipwreck, or other casualty, and from theft, when such losses are not compensated for by insurance or otherwise: *Provided*, That for the purpose of ascertaining the loss sustained from the sale or other disposition of property, real, personal, or mixed, acquired

before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such loss sustained;

Fifth. In transactions entered into for profit but not connected with his business or trade, the losses actually sustained therein during the year to an amount not exceeding the profits arising therefrom; **Losses Outside of Business**

Sixth. Debts due to the taxpayer actually ascertained to be worthless and charged off within the year; **Debts**

Seventh. A reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business or trade; **Depreciation**

Eighth. (a) In the case of oil and gas wells a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof **Oil and Gas Wells**

not to exceed the market value in the mine of the product thereof, which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowances authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made. **Mines**

No deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property or estate, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made. **No Deduction for Improvements**

Contributions and Gifts

Ninth. Contributions or gifts actually made within the year to corporations or associations organized and operated exclusively for religious, charitable, scientific, or educational purposes, or to societies for the prevention of cruelty to children or animals, no part of the net income of which inures to the benefit of any private stockholder or individual, to an amount not in excess of fifteen per centum of the taxpayer's taxable net income as computed without the benefit of this paragraph. Such contributions or gifts shall be allowable as deductions only if verified under rules and regulations prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury.

Credits Allowed

Dividends

(b) For the purpose of the normal tax only, the income embraced in a personal return shall be credited with the amount received as dividends upon the stock or from the net earnings of any corporation, joint-stock company or association, trustee, or insurance company, which is taxable upon its net income as hereinafter provided;

Tax Paid at Source

(c) A like credit shall be allowed as to the amount of income, the normal tax upon which has been paid or withheld for payment at the source of the income under the provisions of this title.

Nonresident Aliens

General Deductions

SEC. 6. That in computing net income in the case of a nonresident alien—

(a) For the purpose of the tax there shall be allowed as deductions—

Expenses

First. The necessary expenses actually paid in carrying on any business or trade conducted by him within the United States, not including personal, living, or family expenses;

Second. *The proportion of all interest paid within the year by such person on his indebtedness (except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this title) which the gross amount of his income for the year derived from sources within the United States bears to the gross amount of his income for the year derived from all sources within and without the United States, but this deduction shall be allowed only if such person includes in the return required by section eight all the information necessary for its calculation;*

Interest

Third. *Taxes paid within the year imposed by the authority of the United States (except income and excess profits taxes), or of its Territories, or possessions, or by the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, paid within the United States, not including those assessed against local benefits;*

Taxes

Fourth. *Losses actually sustained during the year, incurred in business or trade conducted by him within the United States, and losses of property within the United States arising from fires, storms, shipwreck, or other casualty, and from theft, when such losses are not compensated for by insurance or otherwise: Provided, That for the purpose of ascertaining the amount of such loss or losses sustained in trade, or speculative transactions not in trade, from the same or any kind of property acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such loss or losses sustained;*

Losses in Trade, and from Casualty

Fifth. *In transactions entered into for profit but not connected with his business or trade, the losses actually sustained therein during the year to an amount*

Losses Outside of Business

not exceeding the profits arising therefrom in the United States;

Debts Sixth. Debts arising in the course of business or trade conducted by him within the United States due to the taxpayer actually ascertained to be worthless and charged off within the year;

Depreciation Seventh. A reasonable allowance for the exhaustion, wear and tear of property within the United States arising out of its use or employment in the business or trade; (a) in the case of oil and gas wells a reasonable

Oil and Gas Wells allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of

Mines mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof which has been mined and sold during the year for which the return and computation are made, such

No Deduction for Improvements reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowance authorized in (a) and (b) shall equal the capital originally invested, or in case

of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made. No deduction shall be allowed for any amount paid out for new

buildings, permanent improvements, or betterments, made to increase the value of any property or estate, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been

made.

Credits (b) There shall also be allowed the credits specified by subdivisions (b) and (c) of section five.

(c) *A nonresident alien individual shall receive the benefit of the deductions and credits provided for in this*

section only by filing or causing to be filed with the collector of internal revenue a true and accurate return of his total income, received from all sources, corporate or otherwise, in the United States, in the manner prescribed by this title; and in case of his failure to file such return the collector shall collect the tax on such income, and all property belonging to such nonresident alien individual shall be liable to distraint for the tax.

Deductions and Credits of Nonresident Aliens Dependent Upon Return

Personal Exemption

SEC. 7. *That for the purpose of the normal tax only there shall be allowed as an exemption in the nature of a deduction from the amount of the net income of each citizen or resident of the United States, ascertained as provided herein, the sum of \$3,000, plus \$1,000 additional if the person making the return be a head of a family or a married man with a wife living with him, or plus the sum of \$1,000 additional if the person making the return be a married woman with a husband living with her; but in no event shall this additional exemption of \$1,000 be deducted by both a husband and a wife: Provided, That only one deduction of \$4,000 shall be made from the aggregate income of both husband and wife when living together: Provided further, That if the person making the return is the head of a family there shall be an additional exemption of \$200 for each child dependent upon such person, if under eighteen years of age, or if incapable of self-support because mentally or physically defective, but this provision shall operate only in the case of one parent in the same family: Provided further, That guardians or trustees shall be allowed to make this personal exemption as to income derived from the property of which such guardian or trustee has charge in favor of each ward or cestui que trust: Provided further, That in no event shall a ward or cestui que trust be allowed a greater personal exemption than as provided in this section, from the amount of net income*

Specific Exemptions

Children

Fiduciaries

Estates of Deceaseds received from all sources. There shall also be allowed an exemption from the amount of the net income of estates of deceased citizens or residents of the United States during the period of administration or settlement, and of trust or other estates of citizens or residents of the United States the income of which is not distributed annually or regularly under the provisions of subdivision (b) of section two, the sum of \$3,000, including such deductions as are allowed under section five.

Returns

Return of Net Income SEC. 8. (a) The tax shall be computed upon the net income, as thus ascertained, of each person subject thereto, received in each preceding calendar year ending December thirty-first.

To Whom Returns Made (b) On or before the first day of March, nineteen hundred and seventeen, and the first day of March in each year thereafter, a true and accurate return under oath shall be made by each person of lawful age, except as hereinafter provided, having a net income of \$3,000 or over for the taxable year to the collector of internal revenue for the district in which such person has his legal residence or principal place of business, or if there be no legal residence or place of business in the United States, then with the collector of internal revenue at Baltimore, Maryland, in such form as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe, setting forth specifically the gross amount of income from all separate sources, and from the total thereof deducting the aggregate items of allowances herein authorized: *Provided*, That the Commissioner of Internal Revenue shall have authority to grant a reasonable extension of time, in meretorious cases, for filing returns of income by persons residing or traveling abroad who are required to make and file returns of income

Extension of Time for Filing Returns

and who are unable to file said returns on or before March first of each year: *Provided further*, That the aforesaid return may be made by an agent when by reason of illness, absence, or nonresidence the person liable for said return is unable to make and render the same, the agent assuming the responsibility of making the return and incurring penalties provided for erroneous, false, or fraudulent return.

When
Agent
May Make
Return

(c) *Guardians, trustees, executors, administrators, receivers, conservators, and all persons, corporations, or associations, acting in any fiduciary capacity, shall make and render a return of the income of the person, trust, or estate for whom or which they act, and be subject to all the provisions of this title which apply to individuals. Such fiduciary shall make oath that he has sufficient knowledge of the affairs of such person, trust, or estate to enable him to make such return and that the same is, to the best of his knowledge and belief, true and correct, and be subject to all the provisions of this title which apply to individuals: Provided, That a return made by one of two or more joint fiduciaries filed in the district where such fiduciary resides, under such regulations as the Secretary of the Treasury may prescribe, shall be a sufficient compliance with the requirements of this paragraph: Provided further, That no return of income not exceeding \$3,000 shall be required except as in this title otherwise provided.*

Fiducia-
ries

(e) *Persons carrying on business in partnership shall be liable for income tax only in their individual capacity, and the share of the profits of the partnership to which any taxable partner would be entitled if the same were divided, whether divided or otherwise, shall be returned for taxation and the tax paid under the provisions of this title: Provided, That from the net distributive interests on which the individual members shall be liable for tax, normal and additional, there shall be excluded their proportionate shares received from interest on the obligations of a State*

Partner-
ships

Obliga-
tion of
United
States

or any political or taxing subdivision thereof, and upon the obligations of the United States (if and to the extent that it is provided in the Act authorizing the issue of such obligations of the United States that they are exempt from taxation), and its possessions, and that for the purpose of computing the normal tax there shall be allowed a credit, as provided by section five, subdivision (b), for their proportionate share of the profits derived from dividends. Such partnership, when requested by the Commissioner of Internal Revenue or any district collector, shall render a correct return of the earnings, profits, and income of the partnership, except income exempt under section four of this Act, setting forth the item of the gross income and the deductions and credits allowed by this title, and the names and addresses of the individuals who would be entitled to the net earnings, profits, and income, if distributed. A partnership shall have the same privilege of fixing and making returns upon the basis of its own fiscal year as is accorded to corporations under this title. If a fiscal year ends during nineteen hundred and sixteen or a subsequent calendar year for which there is a rate of tax different from the rate for the preceding calendar year, then (1) the rate for such preceding calendar year shall apply to an amount of each partner's share of such partnership profits equal to the proportion which the part of such fiscal year falling within such calendar year bears to the full fiscal year, and (2) the rate for the calendar year during which such fiscal year ends shall apply to the remainder.

Fiscal or
Calendar
Year

Rate

Divi-
dends to
be Includ-
ed in
Return

(f) In every return shall be included the income derived from dividends on the capital stock or from the net earnings of any corporation, joint-stock company or association, or insurance company, except that in the case of nonresident aliens such income derived from sources without the United States shall not be included.

(g) An individual keeping accounts upon any basis other than that of actual receipts and disbursements, unless such other basis does not clearly reflect his income, may, subject to regulations made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, make his returns upon the basis upon which his accounts are kept, in which case the tax shall be computed upon his income as so returned.

**Accounts
other
than
Receipt
Basis**

Assessment and Administration

SEC. 9. (a) That all assessments shall be made by the Commissioner of Internal Revenue and all persons shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said amounts shall be paid on or before the fifteenth day of June, except in cases of refusal or neglect to make such return and in cases of erroneous, false, or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, or has been made, make a return upon information obtained as provided for in this title or by existing law, or require the necessary corrections to be made, and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such person or persons immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the fifteenth day of June in any year, and for ten days after notice and demand thereof by the collector, there shall be added the sum of five per centum on the amount of tax unpaid, and interest at the rate of one per centum per month upon said tax from the time the same became due, except from the estates of insane, deceased, or insolvent persons.

**When
Personal
Tax is
Payable**

**Penalty
for
Failure to
Make
Returns**

Deduction at Source Non-resident Alien

(b) *All persons, corporations, partnerships, associations, and insurance companies, in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, receivers, conservators, employers, and all officers and employees of the United States, having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual or periodical gains, profits, and income of any nonresident alien individual, other than income derived from dividends on capital stock, or from the net earnings of a corporation, joint-stock company or association, or insurance company, which is taxable upon its net income as provided in this title, are hereby authorized and required to deduct and withhold from such annual or periodical gains, profits, and income such sum as will be sufficient to pay the normal tax imposed thereon by this title, and shall make return thereof on or before March first of each year and, on or before the time fixed by law for the payment of the tax, shall pay the amount withheld to the officer of the United States Government authorized to receive the same; and they are each hereby made personally liable for such tax, and they are each hereby indemnified against every person, corporation, partnership, association, or insurance company, or demand whatsoever for all payments which they shall make in pursuance and by virtue of this title.*

Dividends Excepted

Tax Free Bonds

(c) *The amount of the normal tax hereinbefore imposed shall also be deducted and withheld from fixed or determinable annual or periodical gains, profits and income derived from interest upon bonds and mortgages, or deeds of trust or other similar obligations of corporations, joint-stock companies, associations, and insurance companies, (if such bonds, mortgages, or other obligations contain a contract or provision by which the obligor*

agrees to pay any portion of the tax imposed by this title upon the obligee or to reimburse the obligee for any portion of the tax or to pay the interest without deduction for any tax which the obligor may be required or permitted to pay thereon or to retain therefrom under any law of the United States) whether payable annually or at shorter or longer periods and whether such interest is payable to a nonresident alien individual or to an individual citizen or resident of the United States, subject to the provisions of the foregoing subdivision (b) of this section requiring the tax to be withheld at the source and deducted from annual income and returned and paid to the Government, unless the person entitled to receive such interest shall file with the withholding agent, on or before February first, a signed notice in writing claiming the benefit of an exemption under section seven of this title.

**Filing Ex-
emption**

(2) Subdivisions (d) and (e) of section nine of such Act of September eighth, nineteen hundred and sixteen, are hereby repealed.

(f) *All persons, corporations, partnerships, or associations, undertaking as a matter of business or for profit the collection of foreign payments of interest or dividends by means of coupons, checks, or bills of exchange shall obtain a license from the Commissioner of Internal Revenue, and shall be subject to such regulations enabling the Government to obtain the information required under this title, as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe; and whoever knowingly undertakes to collect such payments as aforesaid without having obtained a license therefor, or without complying with such regulations, shall be deemed guilty of a misdemeanor and for each offense be fined in a sum not exceeding \$5,000, or imprisoned for a term not exceeding one year, or both, in the discretion of the court.*

**Collection of
Foreign
Items**

**Penalty
for
Collect-
ing with-
out
License**

**Tax
Assessed
by Per-
sonal
Returns**

(g) *The tax herein imposed upon gains, profits, and incomes not falling under the foregoing and not returned and paid by virtue of the foregoing or as otherwise provided by law shall be assessed by personal return under rules and regulations to be prescribed by the Commissioner of Internal Revenue and approved by the Secretary of the Treasury. The intent and purpose of this title is that all gains, profits, and income of a taxable class, as defined by this title, shall be charged and assessed with the corresponding tax, normal and additional, prescribed by this title, and said tax shall be paid by the owner of such income, or the proper representative having the receipt, custody, control, or disposal of the same. For the purpose of this title ownership or liability shall be determined as of the year for which a return is required to be rendered.*

The provisions of this section, except subdivision (c), relating to the deduction and payment of the tax at the source of income shall only apply to the normal tax hereinbefore imposed upon non-resident alien individuals.

Part II.—On Corporations

**Corpora-
tion Tax
on Net
Income**

SEC. 10. (a) *That there shall be levied, assessed, collected, and paid annually upon the total net income received in the preceding calendar year from all sources by every corporation, joint-stock company or association, or insurance company, organized in the United States, no matter how created or organized, but not including partnerships, a tax of two per centum upon such income; and a like tax shall be levied, assessed and collected, and paid annually upon the total net income received in the preceding calendar year from all sources within the United States by every corporation, joint-stock company or association, or insurance company, organized, authorized, or existing under the laws of any foreign country, including*

interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise, and including the income derived from dividends on capital stock or from net earnings of resident corporations, joint-stock companies or associations, or insurance companies, whose net income is taxable under this title.

The foregoing tax rate shall apply to the total net income received by every taxable corporation, joint-stock company or association, or insurance company in the calendar year nineteen hundred and sixteen and in each year thereafter, except that if it has fixed its own fiscal year under the provisions of existing law, the foregoing rate shall apply to the proportion of the total net income returned for the fiscal year ending prior to December thirty-first, nineteen hundred and sixteen, which the period between January first, nineteen hundred and sixteen, and the end of such fiscal year bears to the whole of such fiscal year, and the rate fixed in Section II of the Act approved October third, nineteen hundred and thirteen, entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," shall apply to the remaining portion of the total net income returned for such fiscal year.

or Fiscal
Year

For the purpose of ascertaining the gain derived or loss sustained from the sale or other disposition by a corporation, joint-stock company or association, or insurance company, of property, real, personal, or mixed, acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such gain derived or loss sustained.

Disposi-
tion of
Property

(b) In addition to the income tax imposed by subdivision (a) of this section there shall be levied, assessed, collected, and paid annually an additional tax of ten per

**Undis-
tributed
Surplus**

centum upon the amount, remaining undistributed six months after the end of each calendar or fiscal year, of the total net income of every corporation, joint-stock company or association, or insurance company, received during the year, as determined for the purposes of the tax imposed by such subdivision (a), but not including the amount of any income taxes paid by it within the year imposed by the authority of the United States.

**Actually
Invested**

The tax imposed by this subdivision shall not apply to that portion of such undistributed net income which is actually invested and employed in the business or is retained for employment in the reasonable requirements of the business or is invested in obligations of the United States issued after September first, nineteen hundred and seventeen: Provided, That if the Secretary of the Treasury ascertains and finds that any portion of such amount so retained at any time for employment in the business is not so employed or is not reasonably required in the business a tax of fifteen per centum shall be levied, assessed, collected, and paid thereon.

The foregoing tax rates shall apply to the undistributed net income received by every taxable corporation, joint-stock company or association, or insurance company in the calendar year nineteen hundred and seventeen and in each year thereafter, except that if it has fixed its own fiscal year under the provisions of existing law, the foregoing rates shall apply to the proportion of the taxable undistributed net income returned for the fiscal year ending prior to December thirty-first, nineteen hundred and seventeen, which the period between January first, nineteen hundred and seventeen, and the end of such fiscal year bears to the whole of such fiscal year.

Conditional and Other Exemptions

**Organiza-
tions
Exempt**

SEC. 11. (a) That there shall not be taxed under this title any income received by any—

First. Labor, agricultural, or horticultural organization;

Second. Mutual savings bank not having a capital stock represented by shares;

Third. Fraternal beneficiary society, order, or association, operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association or their dependents;

Fourth. Domestic building and loan association and coöperative banks without capital stock organized and operated for mutual purposes and without profit;

Fifth. Cemetery company owned and operated exclusively for the benefit of its members;

Sixth. Corporation or association organized and operated exclusively for religious, charitable, scientific, or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual;

Seventh. Business league, chamber of commerce, or board of trade, not organized for profit and no part of the net income of which inures to the benefit of any private stockholder or individual;

Eighth. Civic league or organization not organized for profit but operated exclusively for the promotion of social welfare;

Ninth. Club organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, no part of the net income of which inures to the benefit of any private stockholder or member;

Tenth. Farmers' or other mutual hail, cyclone, or fire insurance company, mutual ditch or irrigation

company, mutual or coöperative telephone company, or like organization of a purely local character, the income of which consists solely of assessments, dues, and fees collected from members for the sole purpose of meeting its expenses;

Eleventh. Farmers', fruit growers', or like association, organized and operated as a sales agent for the purpose of marketing the products of its members and turning back to them the proceeds of sales, less the necessary selling expenses, on the basis of the quantity of produce furnished by them;

Twelfth. Corporation or association organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt from the tax imposed by this title; or

Thirteenth. Federal land banks and national farm-loan associations as provided in section twenty-six of the Act approved July seventeenth, nineteen hundred and sixteen, entitled "An Act to provide capital for agricultural development, to create standard forms of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create Government depositories and financial agents for the United States, and for other purposes."

Fourteenth. Joint stock land banks as to income derived from bonds or debentures of other joint stock land banks or any Federal land bank belonging to such joint stock land bank.

Income
Exempt

(b) There shall not be taxed under this title any income derived from any public utility or from the exercise of any essential governmental function accruing to any State, Territory, or the District of

Columbia, or any political subdivision of a State or Territory, nor any income accruing to the government of the Philippine Islands or Porto Rico, or of any political subdivision of the Philippine Islands or Porto Rico: *Provided*, That whenever any State, Territory, or the District of Columbia, or any political subdivision of a State or Territory, has, prior to the passage of this title, entered in good faith into a contract with any person or corporation, the object and purpose of which is to acquire, construct, operate, or maintain a public utility, no tax shall be levied under the provisions of this title upon the income derived from the operation of such public utility, so far as the payment thereof will impose a loss or burden upon such State, Territory, or the District of Columbia, or a political subdivision of a State or Territory; but this provision is not intended to confer upon such person or corporation any financial gain or exemption or to relieve such person or corporation from the payment of a tax as provided for in this title upon the part or portion of the said income to which such person or corporation shall be entitled under such contract.

Excep-
tion

Deductions

SEC. 12. (a) In the case of a corporation, joint-stock company or association, or insurance company, organized in the United States, such net income shall be ascertained by deducting from the gross amount of its income received within the year from all sources—

Allowed
on
Income of
Domestic
Corpora-
tions

First. All the ordinary and necessary expenses paid within the year in the maintenance and operation of its business and properties, including rentals or other payments required to be made as a condition to the continued use or possession of property to which the corporation has not taken or is not taking title, or in which it has no equity.

Expenses

Losses

Second. All losses actually sustained and charged off within the year and not compensated by insurance or otherwise, including a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business or trade; (a) in the case of oil and gas wells a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowance authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made; and (c) in the case of insurance companies, the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided*, That no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments made to increase the value of any property or estate, and no deductions shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: *Provided further*, That mutual fire and mutual employers' liability and mutual workmen's compensation and mutual casualty insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as

No De-
duction
for
Improve-
ments

Mutual
Organiza-
tions

income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them and interest paid upon such amounts between the ascertainment thereof and the payment thereof, and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year;

Third. The amount of interest paid within the year on its indebtedness (except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this title) to an amount of such indebtedness not in excess of the sum of (a) the entire amount of the paid-up capital stock outstanding at the close of the year, or, if no capital stock, the entire amount of capital employed in the business at the close of the year, and (b) one-half of its interest-bearing indebtedness then outstanding: Provided, That for the purpose of this title preferred capital stock shall not be considered interest-bearing indebtedness, and interest or dividends paid upon this stock shall not be deductible from gross income: Provided further, That in cases wherein shares of capital stock are issued without par or nominal value, the amount of paid-up capital stock,

Deductions,
Domestic
Corporations

Interest

Issued
without
par

Indebtedness Secured by Property

within the meaning of this section, as represented by such shares, will be the amount of cash, or its equivalent, paid or transferred to the corporation as a consideration for such shares: Provided further, That in the case of indebtedness wholly secured by property collateral, tangible or intangible, the subject of sale or hypothecation in the ordinary business of such corporation, joint-stock company or association as a dealer only in the property constituting such collateral, or in loaning the funds thereby procured, the total interest paid by such corporation, company, or association within the year on any such indebtedness may be deducted as a part of its expenses of doing business, but interest on such indebtedness shall only be deductible on an amount of such indebtedness not in excess of the actual value of such property collateral: Provided further, That in the case of bonds or other indebtedness, which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed, or any other tax paid pursuant to such guaranty, shall be allowed; and in the case of a bank, banking association, loan or trust company, interest paid within the year on deposits or on moneys received for investment and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company shall be deducted;

Tax Free Bonds

Taxes

Fourth. Taxes paid within the year imposed by the authority of the United States (except income and excess profits taxes), or of its Territories, or possessions, or any foreign country, or by the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, not including those assessed against local benefits.

Deductions

Allowed on Income of Foreign Corporations

(b) In the case of a corporation, joint-stock company or association, or insurance company, organized, authorized, or existing under the laws of any foreign country, such net income shall be ascertained by de-

ducting from the gross amount of its income received within the year from all sources within the United States—

First. All the ordinary and necessary expenses actually paid within the year out of earnings in the maintenance and operation of its business and property within the United States, including rentals or other payments required to be made as a condition to the continued use or possession of property to which the corporation has not taken or is not taking title, or in which it has no equity. Business Expenses

Second. All losses actually sustained within the year in business or trade conducted by it within the United States and not compensated by insurance or otherwise, including a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business or trade; (a) and in the case (a) of oil and gas wells a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowance authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made; and (c) in the case of insurance companies, the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and an- Losses

nuity contracts: *Provided*, That no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property or estate, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: *Provided further*, That mutual fire and mutual employers' liability and mutual workmen's compensation and mutual casualty insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment thereof and the payment thereof, and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year;

Interest

Third. The amount of interest paid within the year on its indebtedness (except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this title)

to an amount of such indebtedness not in excess of the proportion of the sum of (a) the entire amount of the paid-up capital stock outstanding at the close of the year, or, if no capital stock, the entire amount of the capital employed in the business at the close of the year, and (b) one-half of its interest-bearing indebtedness then outstanding, which the gross amount of its income for the year from business transacted and capital invested within the United States bears to the gross amount of its income derived from all sources within and without the United States: Provided, That in the case of bonds or other indebtedness which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed or any other tax paid pursuant to such guaranty shall be allowed; and in case of a bank, banking association, loan or trust company, or branch thereof, interest paid within the year on deposits by or on moneys received for investment from either citizens or residents of the United States and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company, or branch thereof;

Fourth. Taxes paid within the year imposed by the authority of the United States (except income and excess profits taxes), or of its Territories, or possessions, or by the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, paid within the United States, not including those assessed against local benefits.

Taxes

(c) In the case of assessment insurance companies, whether domestic or foreign, the actual deposit of sums with State or Territorial officers, pursuant to law, as additions to guarantee or reserve funds shall be treated as being payments required by law to reserve funds.

Insurance
Com-
panies

Returns

Tax Year **SEC. 13. (a)** The tax shall be computed upon the net income, as thus ascertained, received within each preceding calendar year ending December thirty-first: *Provided*, That any corporation, joint-stock company or association, or insurance company, subject to this tax, may designate the last day of any month in the

Fiscal Year year as the day of the closing of its fiscal year and shall be entitled to have the tax payable by it computed upon the basis of the net income ascertained as herein provided for the year ending on the day so designated in the year preceding the date of assessment instead of upon the basis of the net income for the calendar year preceding the date of assessment; and it shall give notice of the day it has thus designated as the closing of its fiscal year to the collector of the district in which its principal business office is located at any time not less than thirty days prior to the first day of March of the year in which its return would be filed if made upon the basis of the calendar year;

**Returns
of Cor-
porations**

(b) Every corporation, joint-stock company or association, or insurance company, subject to the tax herein imposed, shall, on or before the first day of March, nineteen hundred and seventeen, and the first day of March in each year thereafter, or, if it has designated a fiscal year for the computation of its tax, then within sixty days after the close of such fiscal year ending prior to December thirty-first, nineteen hundred and sixteen, and the close of each such fiscal year thereafter, render a true and accurate return of its annual net income in the manner and form to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, and containing such facts, data, and information as are appropriate and in the opinion of the commissioner

necessary to determine the correctness of the net income returned and to carry out the provisions of this title. The return shall be sworn to by the president, vice-president, or other principal officer, and by the treasurer or assistant treasurer. The return shall be made to the collector of the district in which is located the principal office of the corporation, company, or association, where are kept its books of account and other data from which the return is prepared, or in the case of a foreign corporation, company, or association, to the collector of the district in which is located its principal place of business in the United States, or if it have no principal place of business, office, or agency in the United States, then to the collector of internal revenue at Baltimore, Maryland. All such returns shall as received be transmitted forthwith by the collector to the Commissioner of Internal Revenue;

(c) In cases wherein receivers, trustees in bankruptcy, or assignees are operating the property or business of corporations, joint-stock companies or associations, or insurance companies, subject to tax imposed by this title, such receivers, trustees, or assignees shall make returns of net income as and for such corporations, joint-stock companies or associations, and insurance companies, in the same manner and form as such organizations are hereinbefore required to make returns, and any income tax due on the basis of such returns made by receivers, trustees, or assignees shall be assessed and collected in the same manner as if assessed directly against the organizations of whose businesses or properties they have custody and control;

(d) A corporation, joint-stock company or association, or insurance company, keeping accounts upon any basis other than that of actual receipts and disbursements, unless such other basis does not clearly reflect

Returns
of
Receivers
and
Trustees

Deduction at Source Non-Resident Aliens

its income, may, subject to regulations made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, make its return upon the basis upon which its accounts are kept, in which case the tax shall be computed upon its income as so returned;

(e) *All the provisions of this title relating to the tax authorized and required to be deducted and withheld and paid to the officer of the United States Government authorized to receive the same from the income of nonresident alien individuals from sources within the United States shall be made applicable to the tax imposed by subdivision (a) of section ten upon incomes derived from interest upon bonds and mortgages or deeds of trust or similar obligations of domestic or other resident corporations, joint-stock companies or associations, and insurance companies by nonresident alien firms, copartnerships, companies, corporations, joint-stock companies or associations, and insurance companies, not engaged in business or trade within the United States and not having any office or place of business therein.*

(f) Likewise, all the provisions of this title relating to the tax authorized and required to be deducted and withheld and paid to the officer of the United States Government authorized to receive the same from the income of nonresident alien individuals from sources within the United States shall be made applicable to income derived from dividends upon the capital stock or from the net earnings of domestic or other resident corporations, joint-stock companies or associations, and insurance companies by nonresident alien companies, corporations, joint-stock companies or associations, and insurance companies not engaged in business or trade within the United States and not having any office or place of business therein.

Assessment and Administration

SEC. 14. (a) All assessments shall be made and the several corporations, joint-stock companies or associations, and insurance companies shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said assessment shall be paid on or before the fifteenth day of June: *Provided*, That every corporation, joint-stock company or association, and insurance company, computing taxes upon the income of the fiscal year which it may designate in the manner hereinbefore provided, shall pay the taxes due under its assessment within one hundred and five days after the date upon which it is required to file its list or return of income for assessment; except in cases of refusal or neglect to make such return, and in cases of erroneous, false, or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, make a return upon information obtained as provided for in this title or by existing law; and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such corporation, joint-stock company or association, or insurance company immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the fifteenth day of June in any year, or after one hundred and five days from the date on which the return of income is required to be made by the taxpayer, and after ten days' notice and demand thereof by the collector, there shall be added the sum of five per centum on the amount of tax unpaid and interest at the rate of one per centum per month upon said tax from the time the same becomes due: *Provided*, That upon the examination of any return of income made pursuant to

When
Tax is
Payable

**Return
of Tax
Paid in
Excess of
Amount
Due**

this title, the Act of August fifth, nineteen hundred and nine, entitled, "An Act to provide revenue, equalize duties and encourage the industries of the United States, and for other purposes", and the Act of October third, nineteen hundred and thirteen, entitled, "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes", if it shall appear that amounts of tax have been paid in excess of those properly due, the taxpayer shall be permitted to present a claim for refund thereof notwithstanding the provisions of section thirty-two hundred and twenty-eight of the Revised Statutes;

**Returns
to be
Public
Records**

(b) When the assessment shall be made, as provided in this title, the returns, together with any corrections thereof which may have been made by the commissioner, shall be filed in the office of the Commissioner of Internal Revenue and shall constitute public records and be open to inspection as such: *Provided*, That any and all such returns shall be open to inspection only upon the order of the President, under rules and regulations to be prescribed by the Secretary of the Treasury and approved by the President: *Provided further*, That the proper officers of any State imposing a general income tax may, upon the request of the governor thereof, have access to said returns or to an abstract thereof, showing the name and income of each such corporation, joint-stock company or association, or insurance company, at such times and in such manner as the Secretary of the Treasury may prescribe;

Penalty

(c) If any of the corporations, joint-stock companies or associations, or insurance companies aforesaid shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, or shall render a false or fraudulent return, such corporation, joint-stock company or association, or insurance company shall

be liable to a penalty of not exceeding \$10,000: *Provided*, That the Commissioner of Internal Revenue shall have authority, in the case of either corporations or individuals, to grant a reasonable extension of time in meritorious cases, as he may deem proper.

(d) That section thirty-two hundred and twenty-five of the Revised Statutes of the United States be, and the same is hereby, amended so as to read as follows:

SEC. 3225. When a second assessment is made in case of any list, statement, or return, which in the opinion of the collector or deputy collector was false or fraudulent, or contained any understatement or undervaluation, no tax collected under such assessment shall be recovered by any suit unless it is proved that the said list, statement, or return was not false nor fraudulent and did not contain any understatement or undervaluation; but this section shall not apply to statements or returns made or to be made in good faith under the laws of the United States regarding annual depreciation of oil or gas wells and mines.

Second
Assess-
ment

Part III.—General Administrative Provisions

SEC. 15. That the word "State" or "United States" when used in this title shall be construed to include any Territory, the District of Columbia, Porto Rico, and the Philippine Islands, when such construction is necessary to carry out its provisions.

SEC. 16. That sections thirty-one hundred and sixty-seven, thirty-one hundred and seventy-two, thirty-one hundred and seventy-three, and thirty-one hundred and seventy six of the Revised Statutes of the United States as amended are hereby amended so as to read as follows:

**Duties
and
Powers
of U. S.
Officials**

SEC. 3167. It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the operations, style of work, or apparatus of any manufacturer or producer visited by him in the discharge of his official duties, or the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any income return, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return or any part thereof or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding \$1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and if the offender be an officer or employee of the United States he shall be dismissed from office or discharged from employment.

SEC. 3172. Every collector shall, from time to time, cause his deputies to proceed through every part of his district and inquire after and concerning all persons therein who are liable to pay any internal-revenue tax, and all persons owning or having the care and management of any objects liable to pay any tax, and to make a list of such persons and enumerate said objects.

**Duties of
Taxpayers**

SEC. 3173. It shall be the duty of any person, partnership, firm, association, or corporation, made liable to any duty, special tax, or other tax imposed by law, when not otherwise provided for, (1) in case of a special tax, on or before the thirty-first day of July

in each year, (2) in case of income tax on or before the first day of March in each year, or on or before the last day of the sixty-day period next following the closing date of the fiscal year for which it makes a return of its income, and (3) in other cases before the day on which the taxes accrue, to make a list or return, verified by oath, to the collector or a deputy collector of the district where located, of the articles or objects, including the amount of annual income charged with a duty or tax, the quantity of goods, wares, and merchandise, made or sold and charged with a tax, the several rates and aggregate amount, according to the forms and regulations to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, for which such person, partnership, firm, association, or corporation is liable: *Provided*, That if any person liable to pay any duty or tax, or owning, possessing, or having the care or management of property, goods, wares, and merchandise, article or objects liable to pay any duty, tax, or license, shall fail to make and exhibit a list or return required by law, but shall consent to disclose the particulars of any and all the property, goods, wares, and merchandise, articles, and objects liable to pay any duty or tax, or any business or occupation liable to pay any tax as aforesaid, then, and in that case, it shall be the duty of the collector or deputy collector to make such list or return, which, being distinctly read, consented to, and signed and verified by oath by the person so owning, possessing, or having the care and management as aforesaid, may be received as the list of such person: *Provided further*, That in case no annual list or return has been rendered by such person to the collector or deputy collector as required by law, and the person shall be absent from his or her residence or place of business at the time the collector or a deputy collector

shall call for the annual list or return, it shall be the duty of such collector or deputy collector to leave at such place of residence or business, with some one of suitable age and discretion, if such be present, otherwise to deposit in the nearest post office, a note or memorandum addressed to such person, requiring him or her to render to such collector or deputy collector the list or return required by law within ten days from the date of such note or memorandum, verified by oath. And if any person, on being notified or required as aforesaid, shall refuse or neglect to render such list or return within the time required as aforesaid, or whenever any person who is required to deliver a monthly or other return of objects subject to tax fails to do so at the time required, or delivers any return which, in the opinion of the collector, is erroneous, false, or fraudulent, or contains any undervaluation or understatement, or refuses to allow any regularly authorized Government officer to examine the books of such person, firm, or corporation, it shall be lawful for the collector to summon such person, or any other person having possession, custody, or care of books of account containing entries relating to the business of such person, or any other person he may deem proper, to appear before him and produce such books at a time and place named in the summons, and to give testimony or answer interrogatories, under oath, respecting any objects or income liable to tax or the returns thereof. The collector may summon any person residing or found within the State or Territory in which his district lies; and when the person intended to be summoned does not reside and can not be found within such State or Territory, he may enter any collection district where such person may be found and there make the examination herein authorized. And to this end he may there exercise all the authority

which he might lawfully exercise in the district for which he was commissioned: *Provided*, That 'person,' as used in this section, shall be construed to include any corporation, joint-stock company or association, or insurance company when such construction is necessary to carry out its provisions.

Sec. 3176. If any person, corporation, company, or association fails to make and file a return or list at the time prescribed by law, or makes, willfully or otherwise, a false or fraudulent return or list, the collector or deputy collector shall make the return or list from his own knowledge and from such information as he can obtain through testimony or otherwise. Any return or list so made and subscribed by a collector or deputy collector shall be prima facie good and sufficient for all legal purposes.

If the failure to file a return or list is due to sickness or absence the collector may allow such further time, not exceeding thirty days, for making and filing the return or list as he deems proper.

The Commissioner of Internal Revenue shall assess all taxes, other than stamp taxes, as to which returns or lists are so made by a collector or deputy collector. In case of any failure to make and file a return or list within the time prescribed by law or by the collector, the Commissioner of Internal Revenue shall add to the tax fifty per centum of its amount except that, when a return is voluntarily and without notice from the collector filed after such time and it is shown that the failure to file it was due to a reasonable cause and not to willful neglect, no such addition shall be made to the tax. In case a false or fraudulent return or list is willfully made, the Commissioner of Internal Revenue shall add to the tax one hundred per centum of its amount.

The amount so added to any tax shall be collected

Failure to
Make
Return

Assess-
ment of
Taxes

at the same time and in the same manner and as part of the tax unless the tax has been paid before the discovery of the neglect, falsity, or fraud, in which case the amount so added shall be collected in the same manner as the tax.

**Receipts
for Taxes**

SEC. 17. That it shall be the duty of every collector of internal revenue, to whom any payment of any taxes is made under the provisions of this title, to give to the person making such payment a full written or printed receipt, expressing the amount paid and the particular account for which such payment was made; and whenever such payment is made such collector shall, if required, give a separate receipt for each tax paid by any debtor, on account of payments made to or to be made by him to separate creditors in such form that such debtor can conveniently produce the same separately to his several creditors in satisfaction of their respective demands to the amounts specified in such receipts; and such receipts shall be sufficient evidence in favor of such debtor to justify him in withholding the amount therein expressed from his next payment to his creditor; but such creditor may, upon giving to his debtor a full written receipt, acknowledging the payment to him of whatever sum may be actually paid, and accepting the amount of tax paid as aforesaid (specifying the same) as a further satisfaction of the debt to that amount, require the surrender to him of such collector's receipt.

**Penalty
for Failure to
File
Returns**

SEC. 18. *That any person, corporation, partnership, association, or insurance company, liable to pay the tax, make a return or to supply information required under this title, who refuses or neglects to pay such tax, to make such return or to supply such information at the time or times herein specified in each year, shall be liable, except as otherwise specially provided in this title, to a penalty of*

not less than \$20 nor more than \$1,000. Any individual or any officer of any corporation, partnership, association, or insurance company, required by law to make, render, sign, or verify any return or to supply any information, who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this title to be made, shall be guilty of a misdemeanor, and shall be fined not exceeding \$2,000 or be imprisoned not exceeding one year, or both, in the discretion of the court, with the costs of prosecution: Provided, That where any tax heretofore due and payable has been duly paid by the taxpayer, it shall not be re-collected from any withholding agent required to retain it at its source, nor shall any penalty be imposed or collected in such cases from the taxpayer, or such withholding agent whose duty it was to retain it, for failure to return or pay the same, unless such failure was fraudulent and for the purpose of evading payment.

SEC. 19. The collector or deputy collector shall require every return to be verified by the oath of the party rendering it. If the collector or deputy collector have reason to believe that the amount of any income returned is understated, he shall give due notice to the person making the return to show cause why the amount of the return should not be increased, and upon proof of the amount understated may increase the same accordingly. Such person may furnish sworn testimony to prove any relevant facts, and, if dissatisfied with the decision of the collector, may appeal to the Commissioner of Internal Revenue for his decision under such rules of procedure as may be prescribed by regulation.

**Verifica-
tion of
Returns**

SEC. 20. That jurisdiction is hereby conferred upon the district courts of the United States for the district within which any person summoned under this title

**Summons
to Testify**

to appear to testify or to produce books shall reside, to compel such attendance, production of books, and testimony by appropriate process.

SEC. 21. That the preparation and publication of statistics reasonably available with respect to the operation of the income tax law and containing classifications of taxpayers and of income, the amounts allowed as deductions and exemptions, and any other facts deemed pertinent and valuable, shall be made annually by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury.

SEC. 22. That all administrative, special, and general provisions of law, including the laws in relation to the assessment, remission, collection, and refund of internal-revenue taxes not heretofore specifically repealed and not inconsistent with the provisions of this title, are hereby extended and made applicable to all the provisions of this title and to the tax herein imposed.

Porto
Rico and
Philip-
pine
Islands

SEC. 23. That the provisions of this title shall extend to Porto Rico and the Philippine Islands: *Provided*, That the administration of the law and the collection of the taxes imposed in Porto Rico and the Philippine Islands shall be by the appropriate internal-revenue officers of those governments, and all revenues collected in Porto Rico and the Philippine Islands thereunder shall accrue intact to the general Governments thereof, respectively: *Provided further*, That the jurisdiction in this title conferred upon the district courts of the United States shall, so far as the Philippine Islands are concerned, be vested in the courts of the first instance of said islands: *And provided further*, That nothing in this title shall be held to exclude from the computation of the net income the compensation paid any official by the governments of the District

of Columbia, Porto Rico, and the Philippine Islands, or the political subdivisions thereof.

SEC. 24. That Section II of the Act approved October third, nineteen hundred and thirteen, entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," is hereby repealed, except as herein otherwise provided, and except that it shall remain in force for the assessment and collection of all taxes which have accrued thereunder, and for the imposition and collection of all penalties or forfeitures which have accrued or may accrue in relation to any of such taxes, and except that the unexpended balance of any appropriation heretofore made and now available for the administration of such section or any provision thereof shall be available for the administration of this title or the corresponding provision thereof.

Act of
October 3,
1913

SEC. 25. That income on which has been assessed the tax imposed by Section II of the Act entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," approved October third, nineteen hundred and thirteen, shall not be considered as income within the meaning of this title: *Provided*, That this section shall not conflict with that portion of section ten, of this title, under which a taxpayer has fixed its own fiscal year.

Sec. 26. Every corporation, joint-stock company or association, or insurance company subject to the tax herein imposed, when required by the Commissioner of Internal Revenue, shall render a correct return, duly verified under oath, of its payments of dividends, whether made in cash or its equivalent or in stock, including the names and addresses of stockholders and the number of shares owned by each, and the tax years and the applicable

Returns
of Pay-
ments of
Divi-
dends

amounts in which such dividends were earned, in such form and manner as may be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury.

**Returns
of Brokers**

Sec. 27. That every person, corporation, partnership, or association, doing business as a broker on any exchange or board of trade or other similar place of business shall, when required by the Commissioner of Internal Revenue, render a correct return duly verified under oath, under such rules and regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may prescribe, showing the names of customers for whom such person, corporation, partnership, or association has transacted any business, with such details as to the profits, losses, or other information which the commissioner may require, as to each of such customers, as will enable the Commissioner of Internal Revenue to determine whether all income tax due on profits or gains of such customers has been paid.

**Returns
of Payors
of Miscellaneous
Income**

Sec. 28. That all persons, corporations, partnerships, associations, and insurance companies, in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, receivers, conservators, and employers, making payment to another person, corporation, partnership, association, or insurance company, of interest, rent, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable gains, profits, and income (other than payments described in sections twenty-six and twenty-seven), of \$800 or more in any taxable year, or, in the case of such payments made by the United States, the officers or employees of the United States having information as to such payments and required to make returns in regard thereto by the regulations hereinafter provided for, are hereby author-

ized and required to render a true and accurate return to the Commissioner of Internal Revenue, under such rules and regulations and in such form and manner as may be prescribed by him, with the approval of the Secretary of the Treasury, setting forth the amount of such gains, profits, and income, and the name and address of the recipient of such payment: Provided, That such returns shall be required, regardless of amounts, in the case of payments of interest upon bonds and mortgages or deeds of trust or other similar obligations or corporations, joint-stock companies, associations, and insurance companies, and in the case of collections of items (not payable in the United States) of interest upon the bonds of foreign countries and interest from the bonds and dividends from the stock of foreign corporations by persons, corporations, partnerships, or associations, undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange.

**Returns
of Debtor
Corporations
on Pay-
ments of
Interest
on Bonds**

When necessary to make effective the provisions of this section the name and address of the recipient of income shall be furnished upon demand of the person, corporation, partnership, association, or insurance company paying the income.

**Disclo-
sure of
Owner-
ship of
Income**

The provisions of this section shall apply to the calendar year nineteen hundred and seventeen and each calendar year thereafter, but shall not apply to the payment of interest on obligations of the United States.

**Appli-
cable to
Year 1917**

Sec. 29. That in assessing income tax the net income embraced in the return shall also be credited with the amount of any excess profits tax imposed by Act of Congress and assessed for the same calendar or fiscal year upon the taxpayer, and, in the case of a member of a partnership, with his proportionate share of such excess profits tax imposed upon the partnership.

**Excess
Profits
Tax
Credited**

**Income
Foreign
Govern-
ments
Exempt**

Sec. 30. That nothing in Section II of the Act approved October third, nineteen hundred and thirteen, entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," or in this title, shall be construed as taxing the income of foreign governments received from investments in the United States in stocks, bonds, or other domestic securities, owned by such foreign governments, or from interest on deposits in banks in the United States of moneys belonging to foreign governments.

**Distribu-
tion of
Earnings**

Sec. 31. (a) That the term "dividends" as used in this title shall be held to mean any distribution made or ordered to be made by a corporation, joint-stock company, association, or insurance company, out of its earnings or profits accrued since March first, nineteen hundred and thirteen, and payable to its shareholders, whether in cash or in stock of the corporation, joint-stock company, association, or insurance company, which stock dividend shall be considered income, to the amount of the earnings or profits so distributed.

**Rates of
Tax Ap-
plicable to
Divi-
dends**

(b) Any distribution made to the shareholders or members of a corporation, joint-stock company, or association, or insurance company, in the year nineteen hundred and seventeen, or subsequent tax years, shall be deemed to have been made from the most recently accumulated undivided profits or surplus, and shall constitute a part of the annual income of the distributee for the year in which received, and shall be taxed to the distributee at the rates prescribed by law for the years in which such profits or surplus were accumulated by the corporation, joint-stock company, association, or insurance company, but nothing herein shall be construed as taxing any earnings or profits accrued prior to March first, nineteen hundred and thirteen, but such earnings or profits may be distributed in stock dividends or otherwise, exempt from

the tax, after the distribution of earnings and profit accrued since March first, nineteen hundred and thirteen, has been made. This subdivision shall not apply to any distribution made prior to August sixth, nineteen hundred and seventeen, out of earnings or profits accrued prior to March first, nineteen hundred and thirteen.

Sec. 32. That premiums paid on life insurance policies covering the lives of officers, employees, or those financially interested in any trade or business conducted by an individual, partnership, corporation, joint-stock company or association, or insurance company, shall not be deducted in computing the net income of such individual, corporation, joint-stock company or association, or insurance company, or in computing the profits of such partnership for the purposes of subdivision (e) of section nine.

**Insurance
Pre-
miums**

Title I.—War Income Tax

Act of October 3, 1917

**Normal
Tax
Individuals**

SEC. 1. That in addition to the normal tax imposed by subdivision (a) of section one of the Act entitled "An Act to increase the revenue, and for other purposes," approved September eighth, nineteen hundred and sixteen, there shall be levied, assessed, collected, and paid a like normal tax of two per centum upon the income of every individual, a citizen or resident of the United States, received in the calendar year nineteen hundred and seventeen and every calendar year thereafter.

Surtax

SEC. 2. That in addition to the additional tax imposed by subdivision (b) of section one of such Act of September eighth, nineteen hundred and sixteen, there shall be levied, assessed, collected, and paid a like additional tax upon the income of every individual received in the calendar year nineteen hundred and seventeen and every calendar year thereafter, as follows:

One per centum per annum upon the amount by which the total net income exceeds \$5,000 and does not exceed \$7,500;

Two per centum per annum upon the amount by which the total net income exceeds \$7,500 and does not exceed \$10,000;

Three per centum per annum upon the amount by which the total net income exceeds \$10,000 and does not exceed \$12,500;

Four per centum per annum upon the amount by which the total net income exceeds \$12,500 and does not exceed \$15,000;

Five per centum per annum upon the amount by which the total net income exceeds \$15,000 and does not exceed \$20,000;

Seven per centum per annum upon the amount by

which the total net income exceeds \$20,000 and does not exceed \$40,000;

Ten per centum per annum upon the amount by which the total net income exceeds \$40,000 and does not exceed \$60,000;

Fourteen per centum per annum upon the amount by which the total net income exceeds \$60,000 and does not exceed \$80,000;

Eighteen per centum per annum upon the amount by which the total net income exceeds \$80,000 and does not exceed \$100,000;

Twenty-two per centum per annum upon the amount by which the total net income exceeds \$100,000 and does not exceed \$150,000;

Twenty-five per centum per annum upon the amount by which the total net income exceeds \$150,000 and does not exceed \$200,000;

Thirty per centum per annum upon the amount by which the total net income exceeds \$200,000 and does not exceed \$250,000;

Thirty-four per centum per annum upon the amount by which the total net income exceeds \$250,000 and does not exceed \$300,000;

Thirty-seven per centum per annum upon the amount by which the total net income exceeds \$300,000 and does not exceed \$500,000;

Forty per centum per annum upon the amount by which the total net income exceeds \$500,000 and does not exceed \$750,000;

Forty-five per centum per annum upon the amount by which the total net income exceeds \$750,000 and does not exceed \$1,000,000;

Fifty per centum per annum upon the amount by which the total net income exceeds \$1,000,000.

SEC. 3. That the taxes imposed by sections one and two of this Act shall be computed, levied, assessed, Collection

ed, and paid upon the same basis and in the same
r as the similar taxes imposed by section one of
ct of September eighth, nineteen hundred and
, except that in the case of the tax imposed by
one of this Act (a) the exemptions of \$3,000 and
provided in section seven of such Act of Septem-
hth, nineteen hundred and sixteen, as amended
s Act, shall be, respectively, \$1,000 and \$2,000,
) the returns required under subdivisions (b) and
section eight of such Act as amended by this Act
e required in the case of net incomes of \$1,000
r, in the case of unmarried persons, and \$2,000
r in the case of married persons, instead of \$3,000
r, as therein provided, and (c) the provisions of
ision (c) of section nine of such Act, as amended
s Act, requiring the normal tax of individuals on
e derived from interest to be deducted and with-
t the source of the income shall not apply to the
wo per centum normal tax prescribed in section
this Act until on and after January first, nineteen
ed and eighteen, and thereafter only one two per
n normal tax shall be deducted and withheld at
urce under the provisions of such subdivision (c),
ny further normal tax for which the recipient of
ncome is liable under this Act or such Act of
nber eighth, nineteen hundred and sixteen, as
led by this Act, shall be paid by such recipient.

4. That in addition to the tax imposed by sub-
on (a) of section ten of such Act of September
, nineteen hundred and sixteen, as amended by
ct, there shall be levied, assessed, collected, and
a like tax of four per centum upon the income
ed in the calendar year nineteen hundred and
een and every calendar year thereafter, by every
ration, joint-stock company or association, or
nce company, subject to the tax imposed by that

subdivision of that section, except that if it has fixed its own fiscal year, the tax imposed by this section for the fiscal year ending during the calendar year nineteen hundred and seventeen shall be levied, assessed, collected, and paid only on that proportion of its income for such fiscal year which the period between January first, nineteen hundred and seventeen, and the end of such fiscal year bears to the whole of such fiscal year.

**Fiscal
Year**

The tax imposed by this section shall be computed, levied, assessed, collected, and paid upon the same incomes and in the same manner as the tax imposed by subdivision (a) of section ten of such Act of September eighth, nineteen hundred and sixteen, as amended by this Act, except that for the purpose of the tax imposed by this section the income embraced in a return of a corporation, joint-stock company or association, or insurance company, shall be credited with the amount received as dividends upon the stock or from the net earnings of any other corporation, joint-stock company or association, or insurance company, which is taxable upon its net income as provided in this title.

Collection

**Divi-
dend**

SEC. 5. That the provisions of this title shall not extend to Porto Rico or the Philippine Islands, and the Porto Rican or Philippine Legislature shall have power by due enactment to amend, alter, modify, or repeal the income tax laws in force in Porto Rico or the Philippine Islands, respectively.

**Porto
Rico and
Philip-
pines**

Title X.—Administrative Provisions

SEC. 1001. That all administrative, special, or stamp provisions of law, including the law relating to the assessment of taxes, so far as applicable, are hereby extended to and made a part of this Act, and every person, corporation, partnership, or association liable to any tax imposed by this Act, or for the collection

**Adminis-
trative
Provi-
sions
of Law
Appli-
cable**

thereof, shall keep such records and render, under oath, such statements and returns, and shall comply with such regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may from time to time prescribe.

**Penalty
for Failure
to
Make
Return**

SEC. 1004. That whoever fails to make any return required by this Act or the regulations made under authority thereof within the time prescribed or who makes any false or fraudulent return, and whoever evades or attempts to evade any tax imposed by this Act or fails to collect or truly to account for and pay over any such tax, shall be subject to a penalty of not more than \$1,000, or to imprisonment for not more than one year, or both, at the discretion of the court, and in addition thereto a penalty of double the tax evaded, or not collected, or accounted for and paid over, to be assessed and collected in the same manner as taxes are assessed and collected, in any case in which the punishment is not otherwise specifically provided.

SEC. 1005. That the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, is hereby authorized to make all needful rules and regulations for the enforcement of the provisions of this Act.

**Payment
in Install-
ments**

SEC. 1009. That the Secretary of the Treasury, under rules and regulations prescribed by him, shall permit taxpayers liable to income and excess profits taxes to make payments in advance in installments or in whole of an amount not in excess of the estimated taxes which will be due from them, and upon determination of the taxes actually due any amount paid in excess shall be refunded as taxes erroneously collected: *Provided*, That when payment is made in installments at least one-fourth of such estimated tax shall be paid before the expiration of thirty days after the close of

the taxable year, at least an additional one-fourth within two months after the close of the taxable year, at least an additional one-fourth within four months after the close of the taxable year, and the remainder of the tax due on or before the time now fixed by law for such payment: *Provided further*, That the Secretary of the Treasury, under rules and regulations prescribed by him, may allow credit against such taxes so paid in advance of an amount not exceeding three per centum per annum calculated upon the amount so paid from the date of such payment to the date now fixed by law for such payment; but no such credit shall be allowed on payments in excess of taxes determined to be due, nor on payments made after the expiration of four and one-half months after the close of the taxable year. All penalties provided by existing law for failure to pay tax when due are hereby made applicable to any failure to pay the tax at the time or times required in this section.

SEC. 1010. That under rules and regulations prescribed by the Secretary of the Treasury, collectors of internal revenue may receive, at par and accrued interest, certificates of indebtedness issued under section six of the Act entitled "An Act to authorize an issue of bonds to meet expenditures for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to extend credit to foreign governments, and for other purposes," approved April twenty-fourth, nineteen hundred and seventeen, and any subsequent Act or Acts, and uncertified checks in payment of income and excess-profits taxes, during such time and under such regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe; but if a check so received is not paid by the bank on which it is

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drawn the person by whom such check has been tendered shall remain liable for the payment of the tax and for all legal penalties and additions the same as if such check had not been tendered.

**Refund
of Tax
Withheld**

SEC. 1212. That any amount heretofore withheld by any withholding agent as required by Title I of such Act of September eighth, nineteen hundred and sixteen, on account of the tax imposed upon the income of any individual, a citizen or resident of the United States, for the calendar year nineteen hundred and seventeen, except in the cases covered by subdivision (c) of section nine of such Act, as amended by this Act, shall be released and paid over to such individual, and the entire tax upon the income of such individual for such year shall be assessed and collected in the manner prescribed by such Act as amended by this Act.

Title XIII.—General Provisions

**Provi-
sions
Deemed
Separable**

SEC. 1300. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of said Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

**Effective
Date of
Act**

SEC. 1302. That unless otherwise herein specially provided, this Act shall take effect on the day following its passage.

Approved, October 3, 1917.

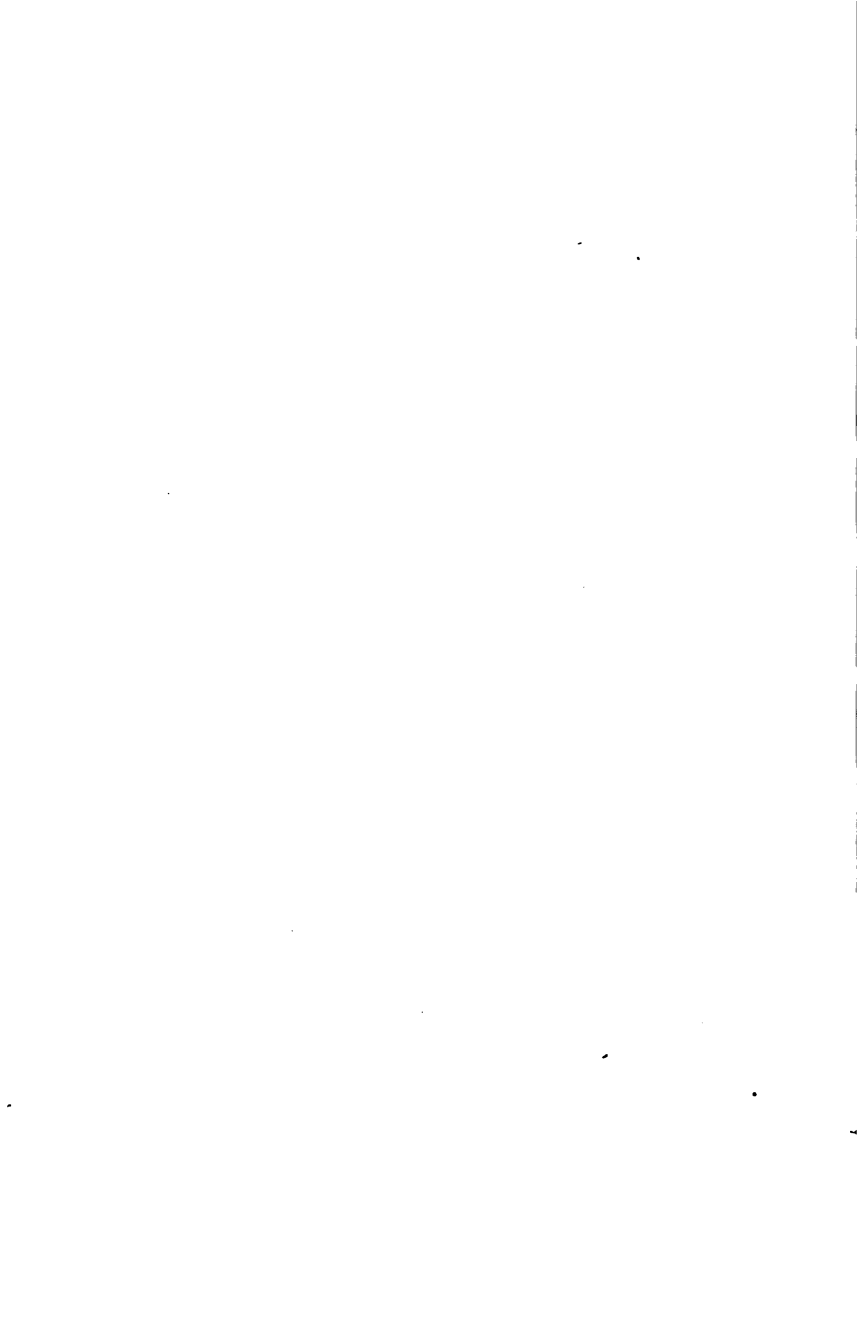
Index to Summary

- ACCIDENT INSURANCE, PROCEEDS OF, 19
- ACCRUED INTEREST ON BONDS, 17
- ACCUMULATED INCOME OF ESTATES, 27
- APPRECIATION OF CAPITAL ASSETS, 23
- BAD DEBTS, 39, 40
- BEARER CERTIFICATES, 61
- BONUS, 16
- CHART OF TAX RATES, 12
- COMMON STOCK AS BONUS, 17
- CONTRACTORS EMPLOYED BY STATE, 31
- COST PRICE OF STOCK, DEDUCTION FOR, 25
- COSTUMES OF ACTORS, DEPRECIATION IN, 42
- CREDITS ALLOWED
 - Dividends, 49
 - Excess Profits Tax, 36, 50
 - Non-Resident Aliens, Conditional, 50
 - Tax Paid at Source, 50
- CROP SHARES, 25
- DAMAGES, 18
- DEALERS IN MERCHANDISE AND SECURITIES, 39
- DEBTS DUE FROM BANKRUPT, 40
- DEDUCTIONS ALLOWED
 - Bad Debts, 39
 - Contributions, 45
 - Customs Duties, 36
 - Debts Payable after March 1, 1913, 40
 - Depreciation, 40
 - Expenses in Business or Trade, 32
 - Expenses of Administration, 34
 - Farmers, 24
 - Interest on Personal Indebtedness, 35
 - Leases, 34
 - Losses from Casualty, 37
 - Losses Incurred outside of Trade, 39
 - Losses in Trade, 37
 - Premium on Fidelity Bond, 33
 - Premiums on Leased Property, 33
 - Rented Property, Expenses of, 33
 - Salaries Paid Employees in United States Service, 35
 - Taxes, 36
 - Taxes Paid by Bank for Stockholders, 37
- DEPRECIATION
 - Costumes of Actors, 42
 - Distinguished from Loss, 41
 - Estate Property, 43
 - Farm Property, 26
 - Good-Will, 42
 - In Value of Securities, 41
 - Mines, 44
 - Obsolescence, 43
 - Of Buildings, 42
 - Oil and Gas Wells, 44
- DETERMINING LOSS, BASIS OF, 38
- DIVIDENDS
 - Defined, 13
 - Fraudently Permitted to Accumulate, 16
 - Paid in Securities of Other Corporations, 14
 - Subject to Surtax Only, 15
- ESTATES IN PROCESS OF SETTLEMENT, 27
- EXCESS PROFITS TAX, CREDIT FOR, 36
- EXEMPT INCOME
 - Federal Farm Loan Securities, 30
 - Gift Bonus, 29
 - Interest on Government or Municipal Bonds, 30
 - Liberty Bonds, 30
 - Proceeds of Life Insurance Policies, 29
 - Property Acquired by Gift or Devise, 29
 - Salaries of Officials, 31
- EXEMPTION, SPECIFIC
 - Dependent Children, 51
 - Estates and Trusts, 52
 - Guardians and Trustees May Claim, 52
 - Head of Family, 53
 - Non-Resident Alien not Allowed, 53
 - Prorated, 52

Status of Person Claiming, 53
 Under 1916 Act, 51
 Under 1917 Act, 51
FAIR MARKET VALUE, 22
FARM
 Defined, 24
 Operated not for Profit, 27
FARMERS' ACCOUNTS, 26
FIDUCIARIES
 Returns by, 69
 Time of Filing, 70
 When Required, 69
FOREIGN SECURITIES, 18
GROSS INCOME DEFINED, 11, 13
HEAD OF FAMILY DEFINED, 53
ILLUSTRATION OF COMPUTATION
OF TAX ON INDIVIDUALS, 9,
10
IMPROVEMENTS NOT DEDUCTI-
BLE, 41
INCOME FROM
 Accident Insurance, 19
 Accrued Interest on Bonds,
 17
 BONUS, 16
 Common Stock Received as
 BONUS, 17
 Damages, 18
 Dividends, 14
 Foreign Securities, 18
 Gains or Profits, 13
 Health Insurance, 19
 Installment Sales, 20
 Insurance Commissions, 18
 Insurance Dividends, 19
 Interest on Bank Deposits, 17
 Interest, Rent, Dividends,
 etc., 13
 Professions, Businesses, Sales,
 etc., 11
 Property Acquired by Gift, 13
 Property of Minor Child, 19,
 20
 Rents, 19
 Rights to Subscribe to Stock,
 17
 Royalties, 19
 Salaries, Wages, etc., 11
 Sale of Property, 21
 Sale of Real Estate Subdivi-
 sions, 21
 Trustees' Compensation, 18
INCOME OF ESTATES, ANNUAL,
23
INFORMATION AT THE SOURCE
 Brokers, 63

Dividends Paid, 64
 Fiduciaries, 63
 Foreign Dividends, 63
 Interest on Bonds, 63
 Persons Paying Miscellaneous
 Income, 62
 Who Must Give, 62
INVESTMENTS OF CAPITAL NOT
DEDUCTIBLE, 34
LIBERTY BONDS, 30
LIFE INSURANCE PREMIUMS NOT
DEDUCTIBLE, 32
LOCAL BENEFITS, 37
LOSS
 Explained, 38
 In Trade or from Casualty, 37
MACHINERY, FARM, 26
MARKET VALUE, 22
NON-RESIDENT ALIENS
 Actual Owner of Stock—not
 Record Owner, 75
 Failure to File Return, 73
 Normal Tax, 11
 Partnership, Actual Owner of
 Stock, 75
 Returns of, 28, 73
NON-RESIDENT ALIENS, DE-
DUCTIONS OF
 Bad Debts, 46
 Business Expenses, 46
 Depletion of Wells and Mines,
 46
 Depreciation, 46
 Interest on Personal In-
 debtedness, 47
 Losses in Trade or Business,
 47
 Losses not in Trade or Busi-
 ness, 48
 Taxes Paid in United States,
 48
NORMAL TAX, 8, 9, 11
NOTICE OF ASSESSMENT, 78
PARTNERSHIPS
 Fiscal Year of, 68
 Profits of, 23
 Returns of, 68
PAYMENT
 By Whom Made, 78
 Distrain for Non-Payment,
 79
 How Made, 78
 In Advance, 79
 Interest Where Paid in Ad-
 vance, 79
 When Paid, 78

- PENALTIES**
 Collection of Foreign Items without License, 77
 Delinquent Returns, 76
 Failure of Withholding Agent to Make Return and Pay Tax, 78
 Failure to File Return with Intent to Evade Tax, 77
 False Returns, 76
- PERSONS SUBJECT TO TAX, 7**
- POLITICAL SUBDIVISIONS, DEFINED, 30**
- PRODUCTS HELD FOR MARKET, 25**
- PROMISSORY NOTES, 23**
- RENTS, 19**
- RENTS RECEIVED IN CROP SHARES, 25**
- RESIDENCE**
 Defined, 7
 Temporary, 8
- RETURNS**
 Agents, 66
 Citizens and Residents, 64
 Committee of Incompetent, 73
 Dividends Shown in, 65
 Estates in Process of Settlement, 70
 Extension of Time by Collector to File, 67
 Extension of Time by Commissioner to File, 66
 Extension of Time for Persons Residing Abroad, 67
 Failure to File, 73
 False, 76
 Fiduciaries, 69
 Fiscal Year Basis, 68
 Forms, 65
 For Period Previous to Decedent's Death, 70
 Guardian and Ward, 72
 Husband and Wife, 69
 Joint Fiduciaries, 70
 Must Show Income of Beneficiary, 73
 Nominee as Agent, 74
 Non-Resident Alien Beneficiary, 72
 Non-Resident Alien Partnership, 75
- Non-Resident Alien—When Necessary, 73
 Other than on Receipt Basis, 66
 Partnership, 68
 Representatives in United States, 74
 Time to File Fiduciary, 20
 When Required, 64, 65, 69
 Where Estate is Sole Beneficiary, 71
 Where Filed, 65
 Where Income of Estate is not Distributed Annually, 71
- SCRIP DIVIDENDS, 14**
- SECURITIES**
 Dealers in, 39
 Shrinkage in Value of, 41
- SEVERAL BUSINESSES, PERSONS HAVING, 38**
- SPECIFIC EXEMPTION (See Exemption), 8, 9**
- STOCK DIVIDENDS, 13, 14**
- STOCK OF SAME ISSUE SOLD AT DIFFERENT DATES, 22**
- SURTAX, 11**
- TAXABLE INCOME OF FARMER, 25**
- TAX, NORMAL, 8, 9, 11**
- TOWNE VS. EISNER, CASE OF, 14**
- WITHHOLDING AT THE SOURCE**
 Bearer Certificates, 61
 Bond Interest, 55, 57
 Citizens, 54
 Dividends Paid to Foreign Corporations, 55
 Fixed, Determinable Annual Income of Non-Resident Aliens, 55
 Foreign Corporations, 55, 58, 59, 60, 61
 Income Subject to, 56
 Interest on Bank Deposits, 55
 Interest on "Tax-Free" Bonds, 54
 Miscellaneous Income, 56
 Partnerships and Firms, 56
 Record Owner of Stock—Not Actual Owner, 60
 Refund of Tax Withheld, 54

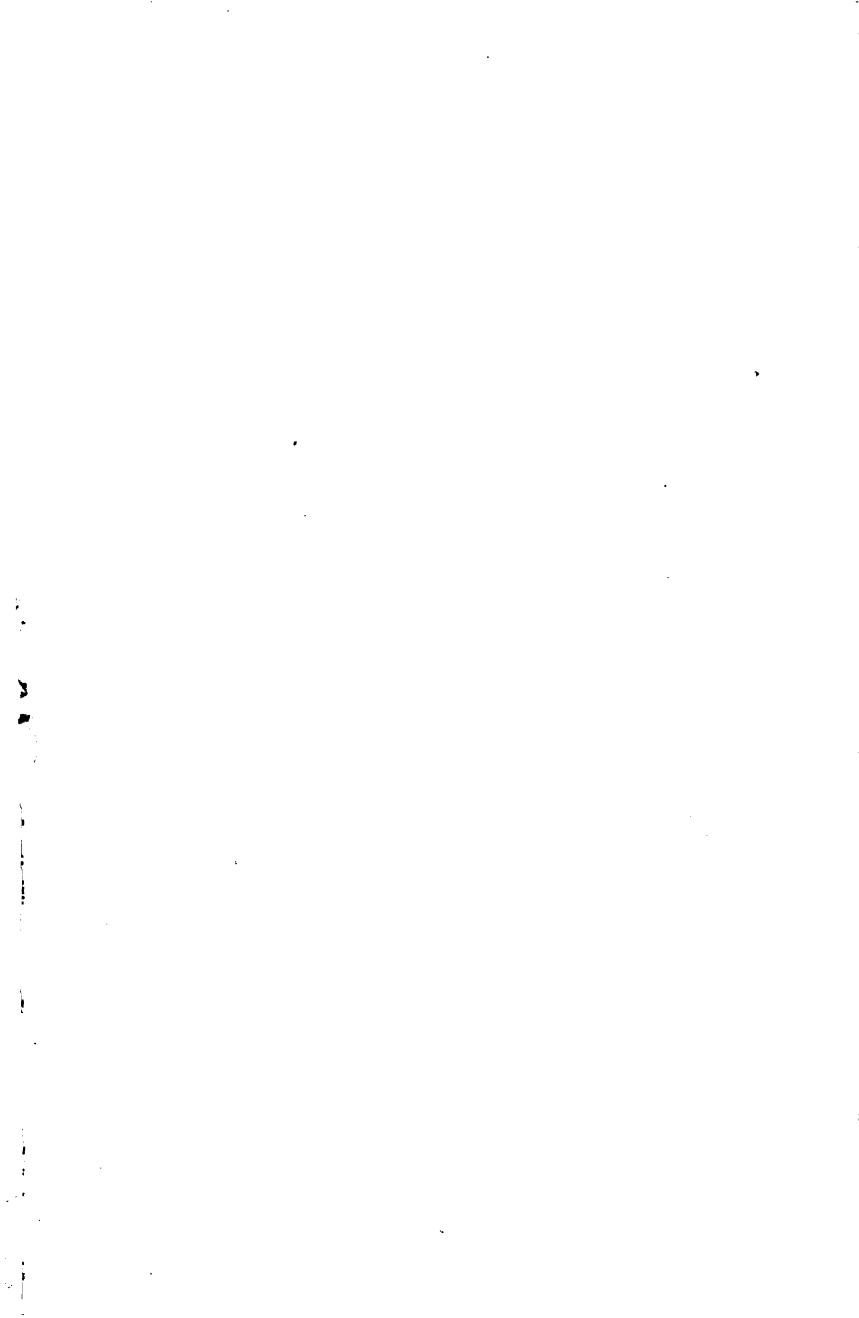


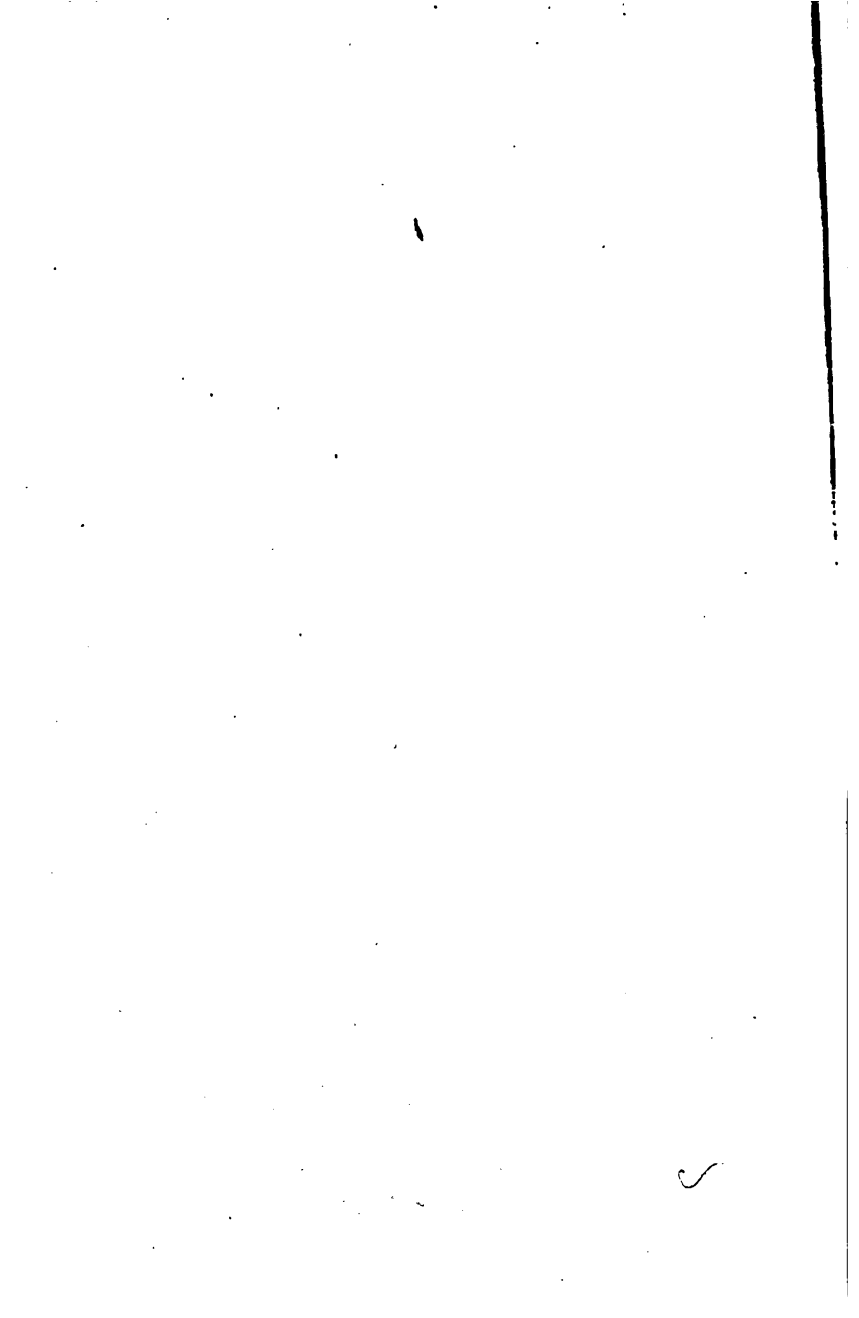
Index to Acts

- ACCOUNTS, KEEPING, 95**
- ADDITIONAL TAX**
On Incomes of Estates, 84
On Incomes over \$5,000 under 1917 Act, 128
On Incomes over \$20,000 under 1916 Act, 81
On Undistributed Profits, 84
Provisions Applicable to, 83
- AGENT**
When Returns Made by, 93
- BAD DEBTS, 87, 89**
- COLLECTION OF FOREIGN ITEMS, LICENSE FOR, 97**
- COLLECTION OF TAX, 95**
- CONTRIBUTIONS TO CHARITABLE ORGANIZATIONS, 88**
- CORPORATIONS**
Deductions Allowed (Domestic), 103
Deductions Allowed (Foreign), 106
Exempt, 100
Fiscal Year, 99, 110
Gains and Losses Ascertained, 99
Interest Paid Within Year, 105
Mutual Marine Insurance, 105
Penalty, 114
Returns of, 110
Returns of Excess Tax Paid, 114
Tax on, 98, 130
Tax Year, 110
When Tax Payable, 113
- COUPONS**
Tax Withheld in Case of "Tax-Free" Bonds, 96
- CREDITS ALLOWED**
Citizens and Residents, 88
Non-Resident Aliens, 90
Tax Paid at Source, For, 88
- DECEDENTS' ESTATES, 83**
- DEDUCTIONS ALLOWED**
Citizens and Residents, 86
Domestic Corporations, 103
Foreign Corporations, 106
Non-Residents, 88
- DEPENDENT CHILDREN, \$200 EXEMPTION FOR, 91**
- DEPRECIATION, 87, 90, 104, 107**
- DISCLOSURE OF OWNERSHIP OF INCOME, 124**
- DIVIDENDS**
Credited for Purposes of Additional Corporation Tax, 131
Defined, 126
Included in Return, 94
Rates Applicable to, 126
Subject to Surtax, 82
- DUTIES AND POWERS OF UNITED STATES OFFICIALS, 116**
- DUTIES OF TAXPAYERS, 116**
- EFFECTIVE DATE OF ACT, 134**
- EXEMPTIONS OF CITIZENS AND RESIDENTS, 91, 130**
- EXTENSION OF TIME FOR FILING RETURN, 92**
- FAILURE TO MAKE RETURN**
By Corporations, 114
By Individuals, 95, 120
- FALSE STATEMENT BY CORPORATIONS, 114**
- FIDUCIARIES**
Indemnified, 84
May Claim Exemption for Beneficiaries, 91
Return of Income, 93
- FILING CLAIM FOR EXEMPTION FROM WITHHOLDING OF TAX, 97**
- FISCAL YEAR**
Of Corporations, 99, 110
Rate of Tax for, 99, 130, 131
- FOREIGN GOVERNMENTS—INCOME EXEMPT, 126**
- FOREIGN ITEMS, COLLECTION OF, 97**
- FOREIGN TAXES DEDUCTIBLE, 86**
- GAINS, ASCERTAINING**
On Property Acquired Prior to March 1, 1913 (Corporations), 99
On Property Acquired Prior to March 1, 1913 (Individuals), 86, 87
On Property Acquired Prior to March 1, 1913 (Non-Resident Aliens), 89
- HEAD OF FAMILY ALLOWED EXEMPTION, 91**

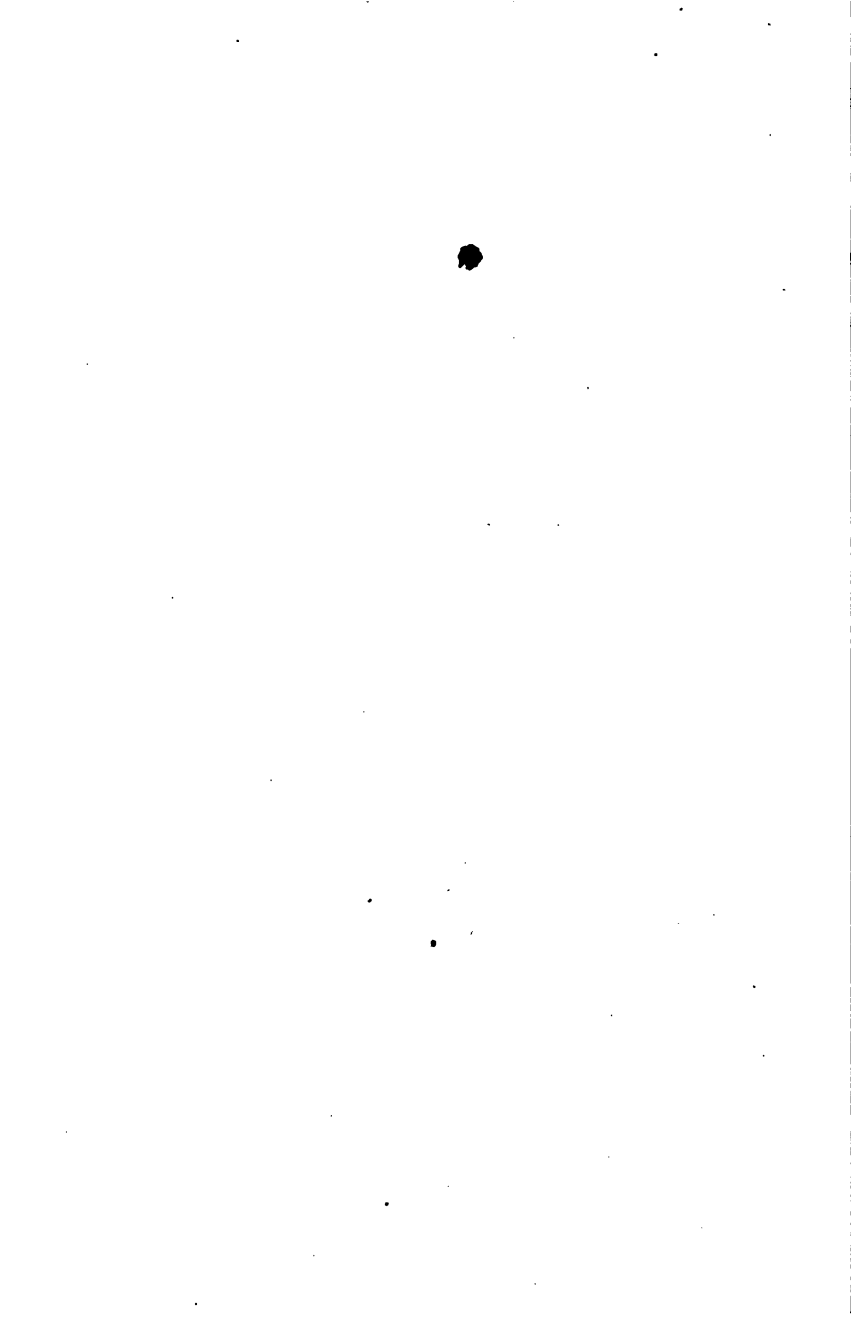
IMPROVEMENTS, No DEDUCTION FOR, 104
INCOME
 Amount Specifically Exempt, 91
 Not Taxable, 85, 102
 Received by Estates, 83
 Securities Issued Under Federal Farm Loan Act, 85, 86
 Taxable Income Defined, 83
INSTALLMENT PAYMENTS OF TAX, 132
INSURANCE PREMIUMS ON LIVES OF CORPORATIONS' OFFICERS, 127
INTEREST ON BONDS WITHHELD FROM CITIZENS TO BE RETURNED, 134
KEEPING ACCOUNTS, 95
LICENSE TO COLLECT FOREIGN ITEMS, 97
LIFE INSURANCE POLICIES—PROCEEDS EXEMPT, 85
LOSSES (See Gains)
NON-RESIDENT ALIENS
 Deductions of Corporations, 106
 Deductions of Individuals, 88
 Where Returns Filed, 111
NORMAL TAX, 81, 128
PARTNERS
 Credit for Dividends, 94
 Income not Returned, 93, 94
 Tax on, 93
PAYABLE
 When Corporation Tax is, 113
 When Personal Tax is, 95
PENALTIES
 Failure to Make Corporation Return, 114, 115
 Failure to Make Personal Return, 95, 132
 False Corporation Return, 114, 115
PHILIPPINES, 123
PORTO RICO, 122
PUBLIC RECORDS, RETURNS TO BE, 114
REFUND OF TAX WITHHELD, 134
RETURNS
 By Agent, 93
 By Brokers, 124
 By Corporations of Shareholders' Income, 123
 By Fiduciaries, 93

By Payers of Miscellaneous Income, 124
 Of Corporations, 110
 Of Corporations of Dividend Payments, 123
 Of Corporations of Interest Paid on Bonds, 125
 Of Net Income, 92
 Of Persons, 92
 Of Receivers and Trustees, 93
 Penalty for Failure to Make, 120
 Penalty for False Corporation Return, 114
 To be Verified, 121
 To Whom Made, 92, 110, 111
SALARIES OF FEDERAL AND STATE EMPLOYERS, 86
SPECIFIC EXEMPTIONS, 91, 130
SURPLUS UNDISTRIBUTED BUT INVESTED IN BUSINESS, 100
SURTAXES, 81, 128
TAX
 Additional Tax, 81, 128
 Deducted from Coupons of "Tax-Free" Bonds, 96
 Normal, 81, 128
 On Partners, 93
 Tax Year (Corporations), 110
 Tax Year (Individuals), 83
 When Corporate Tax Payable, 113
 When Personal Tax Payable, 95
 Withheld at Source, 96
TAXABLE INCOME DEFINED, 83
"TAX-FREE" BONDS, TAX WITHHELD ON INTEREST ON, 96
TAX RATES APPLICABLE TO DIVIDENDS PAID, 126
TAX YEAR, 83, 110
UNDISTRIBUTED SURPLUS, TAX ON, 99, 100
UNITED STATES CERTIFICATES OF INDEBTEDNESS, 133
UNITED STATES OFFICIALS' DUTIES AND POWERS, 116
WHEN TAX IS PAYABLE
 Corporation, 113
 Personal, 95
WITHHOLDING AT THE SOURCE
 Interest on "Tax-Free" Bonds, 96
 Non-Resident Aliens, 96, 112
YEAR
 Fiscal Year, 110
 Tax Year, 83, 110









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